CHALLENGE

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ECONOMICS IN ACTION • OCT. 1953

There are signs that industry is adjusting itself to the end of the boom, but responsible economists aren't crying "wolf" yet:

Inventories, though still more than four-and-a-half billion above 1952, are shrinking. Bankers discourage loans for stock building purposes while businessmen keep a cautious lookout for price and market trends:

Sales of manufactured goods have continued at near-record levels, but there are signs of trouble ahead.

Second-hand car prices are falling, and dealers are urging Detroit to go slow...TV manufacturers, worried over slow sales turnover, pin their hopes on color TV to help them out...Farmers are spending less than 10% of their shrinking incomes on farm equipment, and major suppliers have already ordered substantial production cutbacks.

Americans are spending $13 billion more than last year for consumer goods, and some of this may make up for cuts in Federal spending. On the other hand, we're doing a great deal of our buying on credit -- probably more than we can really afford. A record high cost of living will force us to spend more of our consumer dollar on essentials.

Prognosticators are nearly all agreed that we can look forward to a very mild recession by mid-1954, but they don't believe it will last very long.

President Eisenhower's new economic sleuths will be keeping a particularly sharp lookout for trends in:

Steel, one of our most sensitive economic barometers, which has shown signs of weakening slightly. Production has dipped to 94% of capacity and there have been order cancellations from auto and farm

equipment companies. Scrap prices, moreover, have fallen by as much as 10% a ton in certain areas. So far, this is nothing to worry about, but it bears watching.

Farm prices have rallied somewhat, but the situation is still serious. Despite their recent vote for Federal price and acreage controls, farmers will probably try to hike per acre wheat yield in 1954 to take advantage of support subsidies. The same holds true for corn and cotton, and Administration officials are worried over another crop glut next year.

The experts feel confident they can handle a recession, should one occur, if they find out about it soon enough. That's why the Administration is putting such a lot of emphasis on the work of Dr. Arthur E. Burns, our chief economic trouble shooter, and his team of on-the-spot reporters.

While economists ponder our business future, most Americans are fretting over the record high cost of living which has been rising steadily over the last five months. Apart from clothing costs, which have been falling since 1951, we are spending more of our shrinking consumer dollar on these essentials:

Rents have jumped 13% since the outbreak of the Korean war, and chances are that the trend will continue. This increase is particularly hard on poorer families who are now spending as much as 20% more for rent than in 1950.

Transportation costs have climbed by as much as 18% in the last three years, and many city bus and subway riders are spending 100% more on fares.

(Cont'd on page 63)

challenge
MAGAZINE

Vol. II, No. 1 October 1953

ECONOMICS IN ACTION

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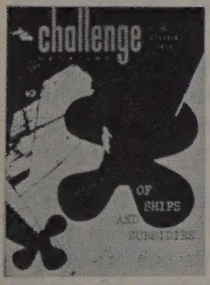

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a personal note

THIS MONTH marks the beginning of the second year for CHALLENGE MAGAZINE. We shall use the occasion to answer a question frequently put to us, usually by people who see CHALLENGE for the first time. "What economic 'line' determines your editorial policy?" they ask. The question has always taken us by surprise, despite its frequency, because actually we are never conscious of any sort of "line" we feel compelled to follow.

In this era of ideological struggle, the word "line" has come to connote a blind allegiance, an unalterable faith, a mechanical adherence to a system of thinking pronounced by thought leaders. We suppose this can be a good thing for the perpetuation of an ideology, but we are certain it is bad from the standpoint of intellectual fertility. The word "line" is a poor substitute for the phrase "line of thinking," which is something else again. If the question had been put to us in the form of an inquiry about the line of thinking which inevitably directs our editorial preferences, then we must admit that there are some precepts of economic logic which impel us to give space to certain articles.

We have had occasion in the past to speak of good economics and bad economics. The words "good" and "bad," as used in this context, are descriptive of economic policies rather than of working mechanics. CHALLENGE MAGAZINE takes a very practical view of economics. We are reasonably certain that most people are interested in the subject only in so far as it helps them to distinguish good economic policy from bad. The statistics, the mechanics and the mumbo-jumbo which are so much a part of every art are best left to the experts. What people want to know, as inexpert human beings, are the ideas and concepts which in the long run make for good economic policy.

THE GREAT and practical concern of CHALLENGE MAGAZINE, then, is to establish a widespread understanding of the kind of economics which contributes to material prosperity. Of course, we realize that there are social, political and spiritual considerations which cannot be totally ignored without risking a loss of perspective. But in the main, the problems of making a living and of improving living standards fall under the curricular heading of economics. We have reason to believe that a great many people are interested in this kind of economics. To these

people we recommend a consideration of the following bits of economic logic:

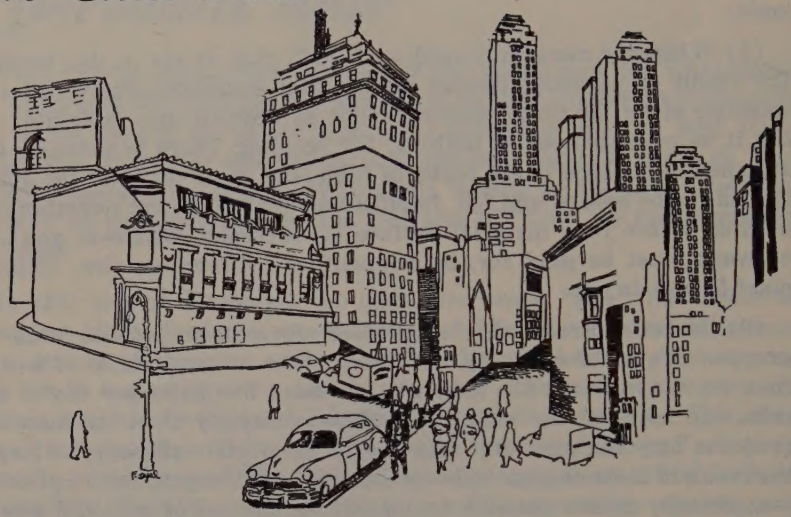
(1) Whatever material wealth or benefit that exists in this world is the result of physical, mental or financial endeavor—yours, mine or someone else's. Material wealth cannot be decreed into existence; nor can it be produced out of nothing, for nothing. There is always a cost attached to it. Even in the realm of fable, the goose that laid the golden egg had to be housed and fed. *Implication*—you never get something for nothing where your material welfare is concerned. Whatever you need or want must be paid for, by yourself or by someone else. Someone *must be able* to pay.

(2) Material prosperity is greatest where men produce with the greatest degree of efficiency. If we use shoes as an example of wealth, then we can say that the man who produces five pairs per day is contributing more to the material welfare of society than the man who produces only one pair. But this greater productive efficiency is largely the result of technological aids—which also must be paid for. *Implication*—machinery makes possible an increasing amount of material wealth. But someone, you, me or someone else, must be *able* to pay for the machinery before the machinery can exist for use. The wealth which pays for machinery is wealth which has been withheld from general consumption and set aside to pay for the marvelous tools of production. Therefore,

(3) The material wealth of the future depends upon the reapplication of such wealth saved from current production. Reinvestment of savings pays for new plants, equipment and ideas, which in turn keep alive the process of constant improvement in living standards. *Implication*—we must pay this year (with savings) for a head start on next year's prosperity. If we seek to consume all wealth (all income) resulting from production, we jeopardize our future capabilities and welfare.

The statements made above constitute the economic facts of life which motivate the editorial policies of this magazine. Adopted by a society whose precepts deny the existence of pre-determined class strata, and adhered to by a government which does not endanger the integrity of the individual by practicing economic demagoguery, we are certain that these economic truths, if generally understood, can help sustain the material well-being which prompts us all to be concerned with economics.—HB

Are Cities Passé?



metropolitan areas around the country must solve a growing number of problems or face economic blight

by Morrison Colladay

COMPARED WITH the rapid rise of prospering suburbs, our cities are slowly being overwhelmed by problems that can well mean "political, economic and social strangulation," according to the American Municipal Association.

The Association warns that: "Problems of the metropolitan areas have increased at an alarming pace within the past ten years . . . and these areas will have to solve them immediately or face economic blight."

What are these problems that have suddenly become so menacing that they frighten city planners in all parts of the country? To answer that question, it is necessary to take a quick look at the history of American cities.

The first of our cities were the children of the rivers. When the country was settled there were no other practical trade routes, and towns grew up where boats could bring in goods and carry them away. Presently, primitive roads were built that extended the settlements' trading areas; but the distance of the extension was limited by animal transportation—and loads were necessarily small.

Canal building solved this prob-

lem. The opening of the first of these—the Erie Canal, in 1825—gave New York City a monopoly over the trade with the settlements which quickly sprang up in the West. To capture a slice of New York's prosperity, Pennsylvania and Virginia rushed canal projects of their own.

The coming of the railroads in the 1830s had an even greater impact. Rail transport was very primitive at first, and the conservatives of the time were firmly convinced that it could never successfully compete with the canals. The conservatives were wrong, of course; the Nineteenth Century belonged to the railroads. All new towns were built along their rights-of-way, and it seemed impossible that the time would ever come when communities could be independent of them.

YET, TODAY, 40,000 communities are located away from any railroad. What the railroads did for the older towns, motor cars and trucks are doing for the new ones.

For a long time now, families have been moving from the cities to the country districts. If this population trend continues, most of the country's large cities will face heavy population losses in the next ten years, according to William L. C. Wheaton, a member of Harvard University's Department of Regional Planning. One of the reasons he gives is that "the older cities are expensive, crowded, dirty and obsolete, and they have lost their appeal to the American family. Actually people are leaving our cities because they aren't fit to live in."

Although a rising birth rate is increasing our population throughout the country, an important survey by the National Industrial Conference Board on "Growth Patterns of Cities" reveals that, with a few exceptions, "the suburban districts have of late been sharply outgrowing their central cities . . . The rate of growth in the cities is definitely and for the most part markedly in the downward direction."

All this raises a serious economic problem for the cities, especially since population loss is usually followed by decline in business volume and property values, which may, in turn, mean an upswing in city living costs.

There are obvious advantages in bringing up children away from congested city streets. The family breadwinners in most instances became commuters. And, for a time, the business and manufacturing establishments where they earned their living remained in the cities.

Morrison Colladay, a frequent contributor to CHALLENGE MAGAZINE, *specializes in articles relating to industrial and municipal planning.*

Not long ago, however, many businessmen began to realize that the conditions which had made the cities the inevitable location for their plants no longer existed; they could transfer operations to suburban or country places with much lower taxes and with better health conditions for their employees, who could live in the vicinity, saving the expense and time required for daily travel to and from the city.

MIGRATION from the older cities by business and manufacturing is being viewed with alarm in responsible quarters. Typical of this concern is a recent editorial comment by *The New York Times:* "We may assume that a migration outward, accelerated probably in times of prosperity, is normal. But the recent tempo has been extraordinary, with its movement of executive offices of large corporations . . ." from New York City. Taking that city as an example, here are a few of the famous concerns which have moved or are moving to the suburbs:

- The Long Lines Department of the American Telephone and Telegraph Company is leaving William Street in downtown Manhattan for a $7 million eastern headquarters in Westchester County.
- General Foods is building a garden-type headquarters, also in Westchester County, that will employ 1200 persons.
- Fifty corporations recently have moved their central offices from New York to Westchester County; fifty-eight more plan expansion of their offices and factories already there.

One hundred and fifty-eight new industrial plants were built in New York's suburban Nassau County alone in 1951-52. The Long Island Association reports that in the thirteen-year period since 1939 the total industrial payroll in Nassau and Suffolk Counties of $7 million has multiplied forty-five times that figure.

The corporations that are leaving the cities are only secondarily concerned with making better living conditions possible for their employees. They go to the expense of building new plants because in many cases sales taxes, confiscatory real estate taxes, gross receipt taxes and city income taxes are making it impossible to compete with rivals located in places where these taxes are not levied in such a heavy-handed fashion.

WORLD WAR II decidedly accelerated the trend toward industrial dispersal and decentralization. Industries took to the green pastures in droves, leaving behind or bypassing congested cities. On the basis of government reports and the "Trends in Industrial Location" studies of the NICB, a fairly clear present-day picture emerges

—a picture that dramatically underlines the decline of the cities from their former dominant positions.

• In general, small towns (10,000 or less in population) and medium-size towns (10,000 to 100,000 in population) have gained industrially at the expense of the cities.

• A cross-section survey reveals a radical change in plant location patterns: Where prior to 1940, cities of more than 100,000 attracted half of all new or expanded plants, they now attract only one-third. The remainder goes mainly to the medium-size town and then to the small town.

• The older and larger cities with populations upward of 100,000 have attracted only a puny 7 percent of our total, booming industrial activity.

In an effort to show critics that cities are doing well, some city officials point to record-high occupancy rates of apartments and offices. But this optimism conceals more than it reveals. Deterioration is rapidly setting in as aging facilities like office buildings and factories require extensive rehabilitation that is not forthcoming. Their saturation point for business activity has long been reached.

A particular proof of this can be seen in Pittsburgh. In the last six years more than $1.5 billion has been channeled into commercial and industrial construction. The expected results never came. In fact, commercial occupancy dropped almost 10 percent. This emphasizes the need for basic economic overhauls in management, physical reconstruction, tax rates and traffic conditions, rather than pointless expansion, if the decline of the cities is to be halted.

BUSINESSES ARE FINDING IT increasingly unprofitable to operate in the congested cities. Philadelphia, Los Angeles and Boston have calculated business losses in the hundreds of millions. New York's Board of Trade is holding its head over what it considers a "billion-dollar-a-year headache." Local merchants are experiencing loss of business; consumers are noticing a rise in living costs, and real estate values are slipping.

Another development that is hurting the cities is the establishment of shopping centers and branches in the great city department stores in the open country where there is abundant parking space for their customers' cars. Even though the suburban department stores are frequently owned by the same corporations that own the city stores, the Federal Reserve Bank of New York has shown that suburban stores have experienced a 70 percent increase, while New York City sales have dropped almost 10 percent.

A survey shows that conditions in the East are duplicated in all parts of the country. "In manufacturing," says Leverett Lyon, Chief Executive Officer of the Chicago Association of Commerce and Industry, "the advantages of the periphery often include cheaper land and lower taxes. These advantages were greatly enhanced by electric power and the automobile. The easy transmission of electricity made it possible to put a plant almost anywhere so far as power is concerned. More recently the merit in one-story plants has added to this advantage of the open spaces of the periphery."

City administrative bodies have only recently become conscious of the menace to their prosperity in the decentralization movement. Many are taking active steps to counteract it. These efforts usually take the form of city planning commissions made up of city officials, members *ex officio* and an equal or greater number of so-called citizen members. Such a commission frequently employs a full-time director of planning, as well as analysts and engineers.

DENVER, Colorado, is one city that has made such a survey, and its conclusions are that extensive rezoning is needed to keep business areas from deteriorating. One of its aims would be to exclude third-rate movie houses, pawn shops, and second-hand clothing shops from its central business areas.

The city plan commission of St. Louis has issued a report that takes stock of the city's positive benefits and suggests a way out of its difficulties. It has asked and answered three questions: What does the city offer? What are the obstacles to redevelopment? What can be done?

Under "What does the city offer?" the Commission lists available labor market, public transit (river, rail and trucking) utilities, parks, medical center, financial center, fire protection, police protection, enforced smoke control.

Under the heading of "Obstacles," it lists the high price of land, lack of on-track industrial sites, traffic congestion, difficulty of assembling large tracts of land, blighted or substandard surroundings, lack of off-street parking and loading areas.

Under the important third heading "What can be done?" it lists first the "Urban Redevelopment Corporation Act," passed by the Missouri Legislature in 1946. This act authorizes a city to buy up land for slum clearance and redevelopment work. St. Louis, under this act, can assemble tracts of land large enough to accommodate new modern commercial and industrial establishments and can help firms now located in St. Louis to expand their sites. The Act also provides for significant tax concessions to

corporations which participate in the redevelopment program of the Act.

It seems reasonably certain that the migration of families from the cities will continue at an increasing rate even if some plan should be devised to check the removal of business and industry. Until the development of radio and television, many families denied themselves the benefits of country living for the sake of big-city amusements. But today what does the average inhabitant of New York or Chicago have that the suburban or country dweller does not? Boxing matches, baseball games, theater, grand opera and symphony concerts—all come to him via television. Even the public library comes to his door in motor trucks.

NOT ALL AUTHORITIES consider the decline of the cities an undesirable phenomenon. One of the major benefits of decentralization is its role in our defense program. Factories are of no use if most of them can be destroyed in an all-out atomic attack. Widely dispersed factories—and widely dispersed workers to operate them—are vitally needed for national security.

Frank Lloyd Wright, however, perhaps best sums up the emotional and sociological forces behind the decline of the cities:

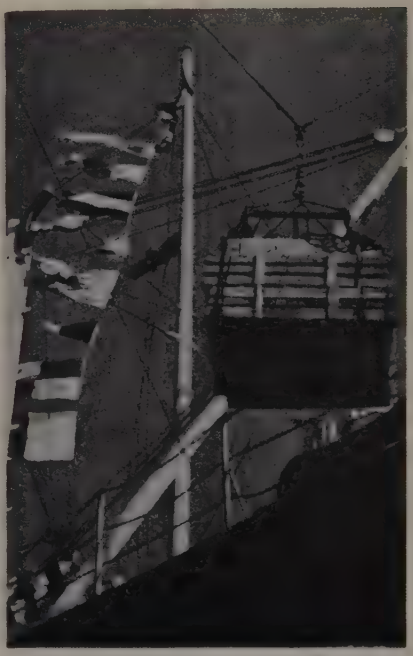
"Eventually we will have a thousand new city equivalents at work detracting from every small town or great city we now have . . . Within easy distance of any man's dwelling soon there will be everything needed in the category of foodstuffs and factorialized or cultural products which the city itself can now supply. Yes, the centralized city of the future may soon become only a depot of some kind. One will be found at ports or where vast supplies of natural materials are located for manufacture. But wherever it is, it is certain that it will be only a degraded mechanistic servant of the machine; because man himself will have everywhere escaped to find all the city ever offered him, plus freedom and privacy the city never had and is now busy trying to teach him he does not want." ■

The Cost of Red Tape

While the cost of government "red tape," all kinds, has often been inveighed against, at last it can be proven what some of it really costs. According to a recent report, some 8900 spools of it (at 53¢ a spool) were used in the last year, mostly for tying up documents to be put in storage. The government paid more than $4700 for this red tape last year. —*Tax Outlook*

our merchant fleet is drifting between the uncharted route of federal subsidy and the reefs of financial disaster

OF SHIPS AND SUBSIDIES



—Moore-McCormack Lines

DURING THE past session of Congress a Senate subcommittee listened to a group of shipping men bemoan the sad state of their industry. Next January the subcommittee will reconvene to digest the voluminous testimony and consider what corrective measures must be taken. To put it bluntly, the American shipping industry is on the rocks: the shipyards have been threatened by an almost complete shutdown; and our merchant fleet itself is drifting between the uncharted route of federal subsidy and the reefs of financial disaster.

The Senators can expect some rough going, since the shipping industry is a maelstrom of conflicting interests. Commercial considerations contradict military requirements; the subsidized and unsubsidized groups have irreconcilable points of view. And government agencies stand in the middle—perhaps with amazement at the sight of an industry which 100 years ago stood for individualism and free enterprise, and today beats at the door of government with demands for aid.

A CENTURY AGO American ships carried three-fourths of our waterborne foreign commerce. Then came the long decline that found us

entering World War I without an adequate merchant fleet. The government was forced to spend $3 billion on 2300 ships — none of which got to sea before the Armistice.

Despite postwar stimulation in the form of $250 million in mail-contract and building subsidies, the merchant fleet again deteriorated. By the time world trade began to expand after the Depression, it was clear we had little fleet and no policy for all the money spent.

In 1936 the President and Congress agreed that the country could afford "honestly to call a subsidy by its right name," and the Merchant Marine Act was written. Its objectives were a privately owned fleet, made and manned by Americans. The fleet was to be large enough to carry our coastal trade and at least half of our foreign commerce. It was to provide scheduled service over all "essential trade routes."

The germ of the Act was monetary aid for American shipping companies to make up the difference between low foreign and high American building and operational costs. In this way, any line willing to undertake scheduled service on an essential foreign trade route (the government has designated thirty-one) can apply for a subsidy.

Congress also intended that an adequate merchant marine should serve as a wartime naval auxiliary, transporting troops and supplies. Another big factor, although not always acknowledged, was that of national prestige. As a presidential advisory committee reasserted in 1947, national security and the "support of this country's position among the leading nations of the world are of themselves sufficient justification for active government fostering of merchant shipping."

After the end of World War II came a boom in international trade that rose still higher with the outbreak of the Korean war. By 1951 the volume of world exports and imports was at least as great as it had been in 1929, the best prewar year; and merchant shipping was fully employed.

Much of this flow of trade, however, has been artificial. American non-military aid to countries abroad financed 10 percent from 1945 to 1952. In 1949 nearly two-thirds of the export tonnage carried by the privately owned fleet was financed with federal funds. But now, as shipments to Korea and mutual security aid cargoes diminish, the shipping industry again is beginning to feel the sting of depression. At the end of 1952, only half as much foreign-aid tonnage left United States ports as at the beginning of that year.

Although the United States has in recent years become the world's

greatest importer and exporter, not since 1948 have American ships carried half—the desirable minimum according to the Act of 1936—of our foreign dry-cargo commerce. Last year we carried only 32 percent; while tanker-carried exports and imports were less than 40 percent. Also, last year some 500 additional foreign ships came into an already highly competitive market. These figures indicate a gloomy future for American shipping interests.

THE AMERICAN merchant fleet, however, is still the world's largest, even though it has fallen from a 1946 peak of over half the total world tonnage to slightly less than a third today. Actually it is made up of two fleets, one privately and one government-owned.

Almost two-thirds of our total merchant marine belongs to the government. But 90 percent of these ships are laid up hull-to-hull in six big berthing areas off the Atlantic, Pacific and Gulf Coasts. Some of them are now being used to store surplus government grain.

The privately owned United States flag fleet is 78 percent war-built, and consisted of 1256 active ships in June of this year. According to the Department of Commerce, this fleet is adequate in size, but not in quality, for normal commercial purposes. Here arises the almost overwhelming problem of "block obsolescence." Between 1962 and 1967 nearly all these vessels will become unseaworthy; their total replacement cost is estimated at $7.3 billion. The question is, how will new ships be financed? Will it be done through subsidies?

There are now fifteen privately owned subsidized lines. Known to the industry as the "Club 15," they operate 268 subsidized dry-cargo and passenger vessels. Another 170 ships are owned by companies also engaged in foreign-trade operations. Most of these are in scheduled-liner service. In addition, more than seventy companies own the American tramp fleet, which at present consists of about 160 Liberty ships, most of them carrying military cargo under government charters.

Scheduled liners, whether subsidized or not, are common carriers, and must sail on time, with or without cargo. The unsubsidized companies, whether running their ships on "essential" trade routes or not, are inclined to consider themselves essential. And they, like the tramps, must meet the same foreign competition as the subsidized lines—while paying the same wages and overhead.

Wages, moreover, are the biggest single item in the budget of the American shipowner—and the one item that could kill off the unsubsidized lines. An American

able seaman, for example, gets a base pay of $302 a month; with overtime he averages $521. Compare this to the salary of a British able seaman, who receives a minimum of $56 and a maximum of $67 monthly.

One group of unsubsidized lines has its own solution to the wage-overhead problem. Instead of the present subsidy system, they propose that the government pay a wage-subsidy directly to the crews of all American ships engaged in foreign trade, making up the difference between foreign and American wage levels. This plan makes neither the subsidized lines nor the unions happy. But no one has come up with a suggestion acceptable to all.

NOW THE TIDE seems to be running out for the American merchant marine. The big oil companies have found it costs less to build their tankers in foreign yards and to have them operated under foreign flags by subsidiary companies. The time may come when American tramp-ship owners and other unsubsidized operators in foreign trade will be forced to seek transfer of their ships to foreign registry in order to be in a better competitive position.

Meanwhile, as if the current ebb in world trade and depressed cargo rates weren't enough to plague it, the shipping industry has felt the stern hand of the economy-minded Eisenhower Administration. This year, $118 million earmarked for new merchant ship construction was slashed from the federal budget. Shipping men, of course, howled. While they mention free enterprise in hushed voices now and again, they are sure that government support will have to continue.

For its part, the Administration knows there isn't a chance it could get out of the shipping business. From 1937 through June 30, 1953 — except during World War II, when payments were suspended— net operational subsidies have cost the government an estimated $214 million. Net construction subsidies have been figured at $342.5 million, including those for the *SS United States, Independence* and *Constitution.*

For operational subsidies in fiscal 1954, Congress allowed $55 million—$10 million less than the Administration requested. Some of this will go to the fifteen lines for current expenses, but the greater part is marked for back subsidies. During this fiscal year, $77 million more will become due and payable to the lines.

BUT THESE subsidies, however helpful they may have been to operators, have not helped the builders, who are now faced with a real depression. Since 1948 no

dry-cargo vessels have been ordered for private accounts in this country.

On the other hand, ships built abroad have had no difficulty in getting financed. Since 1948 American-controlled investments in ships built in foreign yards have reached about $878 million.

The government continues to provide some work by building thirty-five high-speed freighters of the "Mariner" class, which incorporate special defense features. What to do with these ships is another problem. Private lines claim that high operating costs limit their commercial use. At any rate, the Maritime Administration hopes to sell some of these vessels, which cost from $7.8 to $9.5 million each, for around $4.5 million.

IN THE LONG RUN, as world trade expands, the American businessman will become more and more dependent on the American merchant fleet to help him in opening up new markets abroad. The Department of Commerce estimates that by 1965 our foreign trade will be up 25 to 35 percent. The question is, what sort of fleet will we have by then? And how much are we willing to pay?

Private capital has been hard to attract to this "feast or famine" industry, and with good reason. It just doesn't pay. The shipping business, bound by tradition as it is, lacks enthusiasm for developing innovations. Things have changed considerably in Detroit since the first auto assembly line was set up—despite high wages. Not so with the shipping industry. Cargo is still handled in basically the same way the Phoenicians handled it 3000 years ago.

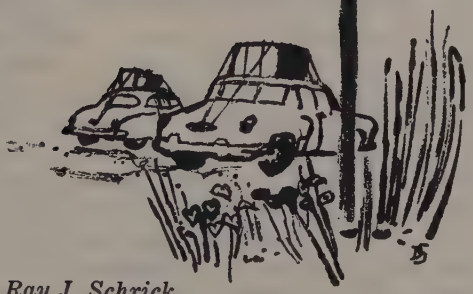
No one quite expects the American merchant marine to founder under the weight of its accumulated problems. The vital role of merchant shipping is evident from its work during the Korean war, when ships carried an average of 700,000 tons of supplies a month to the war zone, while the much-touted airlift averaged only 5000 tons monthly. But unless some solutions are found, a large part of American shipping business could slip away from our shores, and irreplaceable shipbuilding skills be lost through disuse.

It costs money—lots of money—to keep the flag flying from Mobile to Algiers to Karachi. Apparently the government has to foot the bill if the shipping industry can't stay afloat by itself. ■

Stingless Bees

Bees that can't sting have been successfully bred in England. The purpose of the new strain is to teach beekeeping to youngsters.

AMERICA'S NEWEST HOMESTEADERS



land-hungry families flock to the Pacific Northwest as the Columbia River Basin Project opens thousands of acres to irrigation

by Ray J. Schrick

IN THE FLAT, sun-swept area of central Washington State, families are living in the basements of still-to-be-built houses, spending their evenings by the light of a kerosene lamp, and working an average of ninety hours a week.

These people live a hard, pioneer life. This is what it takes to get started today with new farms on the federal government's largest reclamation program—the Columbia Basin Project.

Here, in this Big Bend country, Americans by the thousands are not only willing, but *demanding* the opportunity to endure these hardships. They want to get underway on land they can farm themselves and call their own. They are looking forward to the day when life will not be so uncomfortable.

Once-tiny Ephrata, Washington, is the capital of this surging 5000-square-mile area, where jackrabbits have for years outnumbered human beings.

In 1940 the town counted a population of 951. "Today," says Fred Brown, who runs one of the two new corner drugstores, "I can count the new settlers arriving by reading the receipts on the cash regis-

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Ray J. Schrick, "Wall Street Journal" staff reporter in Portland, Ore., saw the Columbia Basin Project get underway while working with the Bureau of Reclamation in Ephrata, Wash.

ter." The population currently stands at 6600 persons.

What started the rush? Most of the original homesteaders of the Big Bend, who struck stakes in the late 1880s, moved on after a few years because of scarce rainfall. Among those who remained, however, there were some who never gave up hope of bringing water to this land from the many lakes and streams around it.

NATURALLY they turned to the Columbia River, and such was the thought of the men in Attorney William E. (Billy) Clapp's office one day in 1917, when three or four of them got together to discuss ways of "building up" Ephrata. They had heard how thousands of years ago ice had blocked the river, forcing it to rise and stream southward over the Big Bend area, distributing fertile silt.

Attorney Clapp spoke up: "If nature put an ice dam there, why couldn't we build a concrete dam to accomplish the same purpose?"

So grew the concept of the greatest concrete dam in the world, Grand Coulee, which today blocks the Columbia canyon. It took more than fifteen years for the men of Ephrata to convince the nation. Construction began in 1933. Another nineteen years passed in the course of building the dam, canals and other structures before the first irrigation water was delivered to the initial few thousand acres in 1952.

Land in Ephrata used to sell by the acres for a few dollars. Now it sells at $300 the front foot. The town is located near the north end of the Columbia Basin Project area, which is about eighty-five miles long north-south by sixty miles wide. Many towns—Quincy to the west; Soap Lake to the east; Moses Lake, Othello, Warden, Connell, Mesa and Pasco to the south —are booming.

The soaring prices of property in the towns have not hit the farm land, however. A federal anti-speculation act sets land prices within U.S. Bureau of Reclamation projects at the appraised dry land value for the first five years after water is available. This price varies from a few dollars up to $75 per acre.

Some of the land, after irrigation, is worth a thousand dollars and more per acre, admit Bureau of Reclamation officials. This is true, however, after the settler has put an average of $25,000 per farm into machinery, land leveling or sprinkler equipment, seed, labor, a home and so forth.

This requires credit, and plenty of it. The Farmers Home Administration of the Department of Agriculture is there to help settlers who can't swing all the credit they need through private sources of money. Banks and other private lending agencies have put a big

investment into the area to help new farmers get started.

About 75 percent of the million-acre development is held by private owners. These include old-timers like Frank Bell, who first homesteaded in this dry land nearly fifty years ago and now uses project irrigation water on his farm.

Some, like Jake Weber, are sons of old-timers who lived here when living was a chore with a doubtful future. Jake won't be able to get water for as big a farm as his dad used to own. "But that's all right," he says. "I'll know I have a crop. This is my last season of sweating it out. Next year my land gets water."

THE OPENING UP of this water-starved country will require thousands of new farmers; but the number of prospective settlers far exceeds the 1000 "family-sized" farms a year for which water is being made available.

Bob and Harold Faw of Winchester, west of Ephrata, were lucky enough to buy some private land. The two boys served in the Pacific during World War II and saved their money in War Bonds to "stake their way." They didn't get caught in the rush which has developed over the federally owned land.

The 25 percent of the project land owned by the federal government sells chiefly to veterans. They have priority, but so many apply that drawings have to be held—with numbers picked out of a pickle jar—to determine the order in which these veterans get a chance to pick their farms. At the latest drawing, held last June in Pasco, Washington, there were more than 3500 applicants for 108 farms.

Settlers arrive from the eastern seaboard, the drought-ridden Southwest, the Midwest, the Rockies — their belongings piled into trailers and their hopes high that they will get a good farm. For some there is bound to be bitter disappointment. The Bureau of Reclamation requires that veterans have a minimum of two years full-time farming experience (so much the better if it's in irrigated farming) and a minimum of $4500 in liquid assets.

Some settlers put up a temporary tar-paper shack until they get their permanent home built. Others excavate a basement, put a roof on a concrete foundation and live underground the first few years. Many of those who arrived in the summer of '51—in time to be ready for the first water in '52—had neither roads nor electricity. Private and cooperative suppliers of electricity are doing a good job, however, to push electrification of the new farms, while $2 million of state and county money a year

is being spent to build new roads.

Bill Thornton, 31, now of Gloyd, was an early arriver—from Blackfoot, Idaho. He lived, at first, in nearby Moses Lake with his wife and six daughters. He helped build some of the canals now delivering water to his farm. His name was drawn for one of the government-owned farms.

When Bill Thornton took possession of his sagebrush-covered acreage, the land was as wild as the day nature made it. The family didn't move in until Bill had finished putting up a suitable house. Immediately after that the Thorntons had their first son born to them. During that first year on the farm, Thornton built a barn and planted virtually his entire acreage —while working nights stoking the boiler at Moses Lake Air Base. That first year wasn't easy, but Bill Thornton is on his way.

A few lucky settlers hit a first-year bonanza in potatoes. On a farm a short distance from Thornton's, for example, an enterprising settler grossed about $60,000 the first season. A thousand dollars per acre was a good average for those who planted potatoes.

The average income for all crops during that first year was about $170 per acre—not bad for an infant project when you consider that many factors work to cut down the first harvest. For example, the land is short of humus. Some farmers had to plow under green corn or pea crops to build up the soil. Nitrogen also had to be introduced to this near-desert land. Since some crops require more nitrogen than others, the process takes time.

FINALLY, there are the great spring winds that sweep across this plateau and threaten to move anything that is not anchored down—particularly the newly cleared, powdery soil of the Columbia Basin Project.

County agents of the Washington State College Extension Service and Soil Conservation Service men carry on a continual educational campaign keynoted by the general warning: "Don't uncover more than you can handle." One new settler reported that his seed was blown out four times. The soil experts admit he had bad luck, but they also point out that he was a slow learner. If new settlers will take about twenty acres at a time, they say, clearing it, leveling it, planting and irrigating it, they car hold down the soil. Then move on to the next twenty acres, then the next, and so on until it's all in crop.

The Bureau of Reclamation says that when the project is completed, about half of the acreage can be used for dairying and beef cattle raising. The remainder will be widely diversified.

A $9-million sugar-beet refinery has been built near Moses Lake and

is ready for operation. Eventually ten to fifteen thousand acres will be planted to beets in this area. A second 160-acre plant has been earmarked for a site near Quincy.

The green pea plantings contracted for by a large frozen-food plant near the project area will double last year's crop. Sweet corn and beans are also under contract.

A Washington State College study shows that even if half the project area is used for dairying, it is unlikely that this will do more than supply the needs of Washington State alone if the population growth continues at the 1940-50 rate.

GRAND COULEE DAM is completed. The world's largest pumping plant, which lifts water the final 280 feet out of the Columbia River canyon, boasts six of its twelve pumps installed. Any one of these units is capable of pumping more than the domestic water needs of all the residents of New York City.

Key links in the 5000-mile-long canal and lateral system are also completed. But as the construction boom dies, the more lasting production boom begins.

Economists say $117 million in annual crop and livestock values will be raised by project farmers. Big as this is, they add, an even bigger figure will be the annual value of products imported from other areas to clothe, supply and serve the project farmers and town dwellers—$190 million anually.

It's an old reclamation maxim that "For every four new settlers on newly irrigated farms, five newcomers are provided livelihood in a nearby town." It's added that for every new settler, one job is also created for a factory worker in some distant industrial center.

AMONG THE INVESTMENTS settlers will make in getting established in the new communities are $90 million for farm buildings and domestic water systems, $49.5 million for farm machinery, $10 million for household items and furniture.

Grand Coulee Dam's generators double the pre-war hydroelectric power capacity of the region; yet, only a fifth of the 30 million kilowatt potential of the Columbia Basin is harnessed. Forty percent of the nation's hydroelectric potential lies in this Basin. Other dams are being built to harness it.

In the meantime, how will the cost of the Columbia Basin Project be met? Three-fourths of it will be repaid by the sale of power from the Grand Coulee Dam, and one-fourth by the settlers themselves over a forty-year period.

The real repayment, probably, will be the opportunities thrown open to new thousands of Americans tilling their own land, running their own businesses and living in their own homes. ■

some spadework on American card-playing habits

It's Your Play

by Harold Helfer

FOUR OUT OF FIVE adults in the United States today play cards, and there are now more female hands than male doing the shuffling and dealing.

Card playing has more than held its own despite the impact of television on our entertainment habits. According to a recent survey, 86 percent of the familes owning TV sets still play cards, while the figure surprisingly drops to 77 percent among non-set-owners. The producers of TV shows ought to look into this.

There are five major playing card manufacturers in the country who turn out some 75 million decks a year; it all adds up to a whopping $50-million business.

Canasta, contract bridge, pinochle, poker, rummy, auction bridge, samba, five hundred, solitaire and gin rummy, in that order, are the most popular games.

While canasta is the over-all favorite of the nation, there are marked sectional preferences. Contract bridge has its greatest appeal in the Middle Atlantic, South Atlantic and Far Western areas. Pinochle is particularly liked in the Middle Atlantic and Middle Western sections. Poker is a special favorite in New York, Pennsylvania, New Jersey, Michigan and Wisconsin. As for cribbage, it is most widely played in New England and on the Pacific Coast.

The most promising newcomer among the family of card games is samba. A three-pack take-off on canasta, samba is to canasta what contract bridge was to auction.

Oddly enough, the United States, which is so inventive in many fields, is not credited with creating any major card game. Most of the games we play are of European or Asiatic import, although the two newer ones, canasta and samba, originated in South America.

Card playing came to the Western Hemisphere with the first white settlers. Few people know that for a time playing cards were even used as paper currency in the New World! Finding himself out of funds to pay his troops, Jacques de Meulles, Governor of Quebec, confiscated all the playing cards in French Canada, inscribed them with specific values and proclaimed them to be legal tender. It worked out very well, and the cards were used intermittently in the French-Canadian regions for more than three decades.

Playing cards were also used at one time as admission tickets to classes at the University of Pennsylvania; and for a while it was fashionable to write invitations to swanky affairs on the backs of playing cards.

One of the earliest manufacturers of playing cards in this country was the indefatigable Benjamin Franklin. As a matter of fact, he used some of his playing cards as insulation in the famous electrical friction machine which he built.

HOW ABOUT the origin of card playing? One story has it that cards were devised by Emperor Seun-ho of China in 1120 A.D. to help his numerous concubines while away their time. There is also the Hindu legend that a maharaja's spouse thought up card playing to break her husband from the annoying habit of tugging at his beard. It is known that the ancient Egyptians played some sort of game in which papyrus was employed. Perhaps this was the real forerunner of our card games. Take your choice.

The modern history of card playing, though, began with the Crusades. The Crusaders returned to Europe not only with the spices and silk of the East but also with exquisite, hand-painted playing cards. Card playing immediately became a popular pastime of the nobility and soon spread to the commoners.

As a matter of fact, Charles VI of France became so alarmed by the sweeping popularity of cards that he passed a law prohibiting card playing on workdays. Richard I of England forbade card playing to all but knights and clergymen. James I of Scotland made card playing even more exclusive; he restricted it to himself and his cronies.

But undercover or otherwise, the popularity of cards spread at more than a shuffling pace. It is believed that the sailors who served under Columbus played cards to keep their minds off the business of sailing into uncharted waters.

George Washington was a card-

Harold Helfer is a free-lance writer who is well-schooled in American recreation and vacation customs.

player, although his personal records show that he was not a particularly successful one. He lost $30.78 over a four-year period.

Other Presidents also have been known to be card-playing enthusiasts. At least a part of ex-President Truman's intimate circle consisted of card-playing devotees, and President Eisenhower indulges in the pastime on occasions.

Playing card manufacturers are always getting suggestions from people about changing card designs. "Why not have a picture of Montgomery Clift instead of the old king you've got?" someone will write in. Another fairly constant suggestion: "How about Marilyn Monroe taking the place of that homely face-card queen?"

The manufacturers politely but firmly resist all such suggestions. They have learned that cardplayers are an extremely conservative bunch who remain passionately loyal to their old kings and queens even though they could never win a contract with Metro-Goldwyn-Mayer.

Even the communists, persistent as they are, couldn't promote a revolution in cards. Back in 1917, immediately upon coming into power in Russia, the commissars issued an edict ordering pictures of royalty stricken from cards and plain old proletarian folks substituted. The Russian proletariat was willing to take a lot from the Bolsheviks—shootings, land grabbings, starvation—but one thing they could not brook was tampering with traditional playing cards. The old familiar cards were smuggled around, at the risk of imprisonment or worse, and the resistance to Bolshevik cards became so overwhelming that the commissars finally gave up the whole silly idea.

WHILE THE DESIGN of playing cards hasn't changed much, the quality of the cards has continued to improve. There are a considerable number of plastic cards on the market now, and credit for their invention goes to Siegfried Klausner, a Viennese chemist who became impatient with damp and sticky paper cards during his mountain-climbing outings.

Card playing is generally regarded as the most popular and democratic of all games, and there is no doubt that some people give it their unbounded devotion. The story is told about a man who constantly dreamed that he was playing cards. His friends advised him to see a psychiatrist about it.

The psychiatrist, according to the story, suggested that the patient think about women before he dropped off to sleep so that his dreams about playing cards would be displaced.

"What," cried the man, "and lose out on a hand of pinochle!" ■

or—how to hear, but not listen

CALL IT functional music, or music with a purpose. Whatever you label it, music by Muzak is to be heard, *but not listened to.*

The know-how of producing music which won't be listened to has made Muzak a 5-million-dollar-a-year business. In offices and factories, restaurants, department stores, banks, hospitals and other institutions, 50 million people a day hear music by Muzak. Yet none of them listen to it.

Unlike the wasteful student who pays tuition to hear, but not heed his teachers, subscribers to Muzak get exactly what they are paying for—when they don't listen. They want music which stays in the background; music which creates a mood, an atmosphere. There isn't supposed to be any direct contact between the music and a listener.

You can't beat time to Muzak because you aren't particularly conscious of its presence. Its purpose is to set you in the right mood to do whatever you are doing more efficiently or more enjoyably. Muzak is planned music—to be played at the right time in the right place—especially arranged and transcribed so that it will not attract attention to itself. But what you hear of it in the background accomplishes the desired psychological and physiological effects. For "music hath charms" according to the poets; and, we might add, it has power.

It's an old saw to say that music is a universal language, but it's a true statement, nevertheless. We may not always like it, but we always recognize it. Rare is the man or beast who will not react to it in some way. Gaiety, solemnity, joy and sorrow, beauty, inspiration, peace or disquiet—all can be suggested and created by a musical stimulant.

FOR MORE than fifty years medical research has been assessing the function of music in mental and physical therapy. The past ten years have been particularly productive in scientific evaluation of the findings.

As a factor in the relief of pain and anxiety, as well as an inducer of relaxation, music has been pronounced a success by the medical profession. Even more dramatic has been the application of music therapy to the treatment of mental disturbances. The power of suggestion of music upon the patient's mood, emotions and mental processes has been proved to be extremely effective; and, therefore, when properly administered, extremely beneficial.

In all of the instances of successful use of music therapy, one overwhelming fact sticks out: music, in order to be functionally effective, must be tailor-made to meet a specific need—just as chemical medicines must be specially prescribed by your doctor.

With the effects of musical stimuli upon body and mind already well-enough understood to warrant clinical application, the carry-over of this body of knowledge into the field of industrial and business activity was a logical step. To relieve the monotony and boredom of assembly-line jobs; to perk up efficiency in both routine clerical and more creative office work; to combat fatigue at the crucial hour of 10:30 a.m. and again at 3:30 p.m.; to develop an atmosphere of ease, comfort and relaxation in restaurants and hotels; to induce an aura of warmth and congeniality in department stores and super markets —each one of these special situations has been met by the proper application of functional music, but only after scientific evaluation, tests and measurements.

PIONEER RESEARCH in this field was conducted jointly by Muzak and the Stevens Institute of Technology in Hoboken, N. J. Their studies developed the scientific requirements for the proper administration of functional music. These requirements may be summed up as follows: the balanced programming of the right kind of music at appropriate intervals, intended purely, simply and exclusively to evoke a desired response from an individual engaged in a particular task at a particular place.

To fulfill such a set of qualifications obviously requires more than just a few controls on the part of those who prepare functional music. It is on the basis of the knowledge accumulated by years of research and experimentation that the Muzak Corporation has perfected itself in the art of preparing functional music.

MUSIC by Muzak was not always so scientifically compounded as it is today. In fact, the music wasn't always known as Muzak.

It all started in 1922 when a group of Cleveland businessmen became interested in the suggestion that electric power lines could be used to transmit music and news to local subscribers. Under the name of Wired Music Inc., the company proceeded to service restaurants, hotels and other public places. It was during these early years of the business that a change to telephone lines was found necessary in order to avoid electrical interferences.

In 1936 the Cleveland group was bought out, and all facilities of Wired Music Inc. were moved to New York City, where the potential of restaurant and hotel subscribers was much larger than in Cleveland. This move was also accompanied by a change in name for the company, thereafter known as the Muzak Corporation.

In our economy horizons are unlimited for the extension of services that fill needs. Ever since 1936 the demand for functional music has been growing, and Muzak has been keeping up with demand. By 1940 there were 791 subscribers buying piped-in music through nine franchises. This comprised a good-sized business for Muzak, but it was nothing compared to what came after 1940.

The large-scale industrial use of functional music developed during World War II, and oddly enough, despite the existence of Muzak in New York, it was in England that the idea first took hold. With night-bombings and heavy production schedules in war plants taxing muscles and nerves, officials introduced music into the plants as a therapeutic agent. The experiment was a success—so much so that the War Production Board in Washington decided to push the idea for adoption in our own war plants. The phenomenal growth of Muzak stems from this period, coinciding with the arrival of William Benton in 1941 as the new owner.

The crest of demands for functional music in war plants did not abate with the coming of peace. The number of Muzak subscribers has now grown to 10,000, serviced by seventy-one independent franchises in about 250 cities throughout the Western Hemisphere. With doctors, dentists and hospitals

making greater use of wired music every day, and with new office and professional buildings being wired for Muzak from basement to roof, there's no telling how many millions of people will be hearing—but not listening to—the same tune at the same time.

THIS BUSINESS of hearing the same tune at the same time is a product of Muzak's master schedule in New York. All franchises everywhere must stick to the letter of the master schedule since scientific programming is one of the elements of proper functional music. Actually there are four schedules: one to meet the needs of restaurants and hotels; another for offices and banks; a third for industry; and the last for retail stores.

Each schedule is designed to fulfill a special set of requirements. Obviously the musical background in a cocktail lounge cannot be the same as in a roomful of adding machine operators. Similarly, the type of music played at 9 a.m. in a plant must be different from the type played at 10:30 a.m., when the morning's fatigue curve is at its highest.

The program department of Muzak builds the schedules around a proper balance of transcriptions especially prepared to scientific standards. The music itself, concert, semiclassical and well-known dance tunes, is arranged according to Muzak specifications so that all strong brasses and vocals are muted. The main purpose of the music is to provide atmosphere, not entertainment.

Top-flight orchestras do the recordings for Muzak, and once the "master" has been cut, mass production of transcriptions begins. About thirty new pieces per month are thus added to a permanent library of more than 6000 recordings. Each one of the seventy-one franchises programs the selections according to the master schedules prepared in New York.

AS ATMOSPHERE music, all Muzak recordings must be specially engineered. An ordinary phonograph record has a fidelity range up to 4500 cycles. Muzak transcriptions have a high fidelity range running to 11,000 cycles. Thus Muzak can be heard, even at the low volume of a whisper, through the din of a factory or the chatter of a cocktail lounge. It is always in the background, yet it never distracts.

This, then, is the music you hear, but never listen to. If you ever catch yourself listening, let Muzak know about it. There's a crossed wire somewhere. ■

Ad in an Oslo, Norway newspaper:
"The clean *white* toothpaste without chlorophyll."

scientific farming appears to be the only way to perpetuate our wealth in wood

tomorrow's TIMBER *from tree farms*

by Edgar Perry

BESIDE A Louisiana highway a crew of men erected a towering green and white sign. It proclaimed that the land behind it—some 114,000 acres—was a "Certified Tree Farm" and bore the name of one of the region's larger lumbering firms.

In Ohio, a farmer tacked a small sign on a tree in his wood lot, also announcing the location of a tree farm. This one took up just sixty-five acres.

From Maine to California these signs are sprouting, some in virgin timber which has never known the ring of an axe, some in newly cut-over valleys, some in New England wood lots which have been combed for wood products since Colonial times. Recently a house organ of the national lumbering industry headlined proudly:

TREE FARM ACREAGE
PASSES 26 MILLION ACRE MARK

It's a dramatic development in America's industrial history, but its eventual effectiveness is still very questionable.

Toward the end of the last century, the exploitation of our timberland reached its reckless worst. Most lumbermen knew it was bad for the country and bad for their own industry. But there was little they could do about it. Competition for the lumber market was intense, and standing timber was to be had for the taking.

If he owned the timber, it behooved the lumberman to turn it into cash before fire, the ravages of time and the tax-gatherer dug too great inroads into it. If he was swiping it from the public domain, as it so often happened, he was smart enough to cut over his own "round forty" first—before some buccaneer overlapped him.

A lumberman got hold of a "round forty" by acquiring, legally, a 40-acre tract of government land. He then proceeded to cut everything for miles around this property. In the unlikely event of being taken to task for it, the operator protested that since his land was

Edgar Perry, a member of the Outdoor Writers' Association of America, draws from thirty years' experience as a forester.

not surveyed, it was impossible to tell where the boundaries lay!

In any event, a lumberman would have found it difficult to slow down in the interests of conservation. The boom psychology pervading the industry demanded more and bigger mills, providing larger payrolls and garnering a greater volume of business.

Lumbering centers rode high on the crest of this boom; and some localities could not avoid the inevitable crash. At its peak in 1882, the Saginaw, Mich. area boasted 112 sawmills, twelve daily newspapers and ninety-eight millionaires. As many as 5000 lumberjacks roared into town of a Saturday night to roister in an unrecorded number of saloons.

Ten years later the mills were gone and the town practically abandoned. Great fires raged unheeded through the valueless cutovers, completing the destruction.

IT WAS THIS sort of thing which led a joint committee of Congress, working late one night in 1891, to iron out differences over a routine federal lands bill and to tack on a section empowering the President to withdraw timberlands from the public domain for the purpose of creating "forest reserves." Although this action contravened the rules of parliamentary procedure, the bill slipped by as amended, without opposition.

That was the casual genesis of our great national forest system, which today occupies some 10 percent of the country's area.

It was also the genesis of a battle royal between the aroused conservationists and the unreconstructed elements of the lumber fraternity. But it was not until the best of the timberland had passed into private ownership, at times through fraudulent "homestead" applications, that strong action by the government took place.

On assuming the Presidency, Theodore Roosevelt, the arch-conservationist, rapidly withdrew the bulk of the remaining federal timberland and put an end to the "round forty."

Under the sometimes stormy leadership of Gifford Pinchot, scion of a wealthy lumbering family who had studied forestry abroad, those in charge of the national forests began treating timber as a crop rather than as material to be mined. What was worse, in the lumbermen's eyes, Pinchot insisted they do the same on their own lands.

Their rejection of the idea was instant and bitter. In the dog-eat-dog lumber industry, they persisted, anyone foolish enough to add to his costs that way was a sure candidate for a pauper's grave. They were also sure that for government to enforce such a procedure would be an invasion of

property rights, although there was ample precedent for public control over the use of private land, as in the case of the familiar city zoning ordinance.

No serious attempt has yet been made to pass federal legislation on the subject. Some states have adopted forest codes of varying degrees of scope and effectiveness.

As it has turned out, the lumber industry faces a dilemma not imposed by lawmakers. Acceptable saw timber is becoming harder to find. That which is left frequently stands in terrain which exacts heavy expense to drag away the logs.

But most significant of all, the lumberman finds that when he clears the usable timber from the land he now holds, he cannot turn to new land. His only alternative is to grow trees on his presently owned property.

The timber in the national forests, meanwhile, is finally coming into its own. Tracts which the Forest Service could not sell at any price a few years ago now incite spirited bidding, though the successful bidder must cut and haul in accord with strict limits.

There is no lack of forest land in the United States eminently suitable for growing saw timber if properly managed. In fact, much of it is suitable for little else. Thus far, the bulk of this land has not known proper management. Much of the young growth is inferior.

Some die-hards maintain that if you measure the annual growth on all forest land in terms of cubic feet of wood, it just about balances the annual removal. This annual increase, however, largely takes the form of scrub not suitable for cutting. The supply of mature trees—which yield the board feet of lumber it takes to build houses—continues to dwindle.

So, nature and the workings of economic necessity are bringing about the end sought vainly by conservationists for half a century. The Tree Farm movement represents hard-headed recognition that to stay in business a manufacturing industry must ensure a stable source of raw material.

Initiated in 1941 by the American Forest Products Industries, Inc.—a public relations organization set up by the wood-using industries to meet the threat of public regulation—the Tree Farm movement has grown steadily, if not spectacularly. A Tree Farm is any piece of forest land whose owner subscribes to "continuous production of forest crops and protection from fire, insects, tree diseases and excessive grazing."

A committee investigates the past and present practices of each applicant, and if satisfied, issues a certificate of enrollment. It does

not hesitate to revoke the certificate if periodic inspection reveals non-compliance with its terms.

Once pledged, members pay no dues and follow their own judgment as to care and harvesting. They operate chiefly within state or regional groups, sometimes with the additional sponsorship of local firms. Some large buyers extend technical service in return for first crack at a crop.

The movement runs strongest on the West Coast, but embraces thirty-six states today. It involves about 5000 individual owners, about 80 percent of them small-scale. It gains about 3 million acres a year.

Will the Tree Farm program, and the new thinking in forest management which it reflects, avert the long-prophesied timber famine? Some authorities doubt it. They point to one very practical difficulty—the forest ownership pattern.

Contrary to popular conception, the nation's forest land is not owned mostly by big "timber barons" who may do with it as they please. Three-fourths of it is held by about 4 million small owners, whose average holding is only sixty-two acres. Can all, or even a significant part of these people, scattered from coast to coast, be drawn into a program promising more benefits in the long run but less cash today?

Skeptics make much of the fact that after twelve years the Tree Farm movement covers only about one-fifteenth of the potential privately owned area. They believe it is going to require federal regulation to make sure of meeting the country's appetite for 50 billion board feet of wood products annually.

Evidence indicates that many leaders of the wood-using industries are no longer dead-set against uniform national regulation of forests. They reason that *someone* is going to have to make sure the needed timber keeps growing. It is a matter of survival.

But with neither critics nor defenders of the private lumbering industry actively speaking out for public regulation today, it seems likely that a compromise beneficial to all is at last shaping up. ■

Dry—but Not by Choice

Pemberton, Minn. village councilmen who approved establishment of a private liquor store ran into a state law forbidding liquor sales within 1500 feet of a school. No spot in Pemberton is 1500 feet from the school—though it is outside the village limits.

Can we expect the resources of the Earth to outlast an ever-increasing world population?

The LIMITS of the EARTH

by Fairfield Osborn

TODAY, the possibility for human health and happiness is being overshadowed by one dominant and ever-increasing threat—that of the overpopulation of the earth. The removal of this threat is essential to the welfare of the individual of whatever land.

The widespread conditions of social and political unrest are due not only to differences in ideology but in large degree to the compelling need of people for the essential resources, including food supply, that can be drawn from the earth.

The pressures resulting from rapidly mounting populations throughout the world create one very great obstacle to world peace and one that certainly as yet is not being adequately considered or dealt with. For my part, I do not believe we can anticipate peace among nations until these pressures are abated.

Modern civilization is under the power of a timeless principle, exerting its influence relentlessly on a global scale. This principle is closely related to the law of supply and demand. It finds expression in a simple ratio in which the numerator can be defined as "resources of the earth" and the denominator as "numbers of people." The numerator is *relatively* fixed and only partially subject to control by man. The denominator is subject to substantial change and is largely, if not entirely, subject to control by man. If we are blind to this law or delude ourselves into minimiz-

This article is an adaptation of a recent address delivered by Fairfield Osborn before the First World Congress on Fertility and Sterility. Mr. Osborn, President of The Conservation Foundation, gives a full-scale treatment of this subject in his book, "The Limits of the Earth," to be published this month by Little, Brown & Company.

ing its power, of one thing we can be assured—the human race will enter into days of increasing trouble, conflicts and darkness.

In order that we may share together a clear idea of the changes in the world's population in recent times, and a comprehension of the velocity of its present growth, allow me to review briefly a few major facts.

In the middle of the Seventeenth Century, the earth's population was approximately 450 million people, or about one-fifth of today's number. There are various valid reasons for assuming that it had not previously much exceeded that number. The Eighteenth Century proved to be a period of major change. It witnessed the beginnings of better means of communication and transport, the introduction of the steam engine and an incipient improvement in medical care. The revelation of new land and wealth in the western hemisphere had had a great psychological effect upon the minds of men. The earth was a vast place, after all. The fascination of new horizons galvanized the thoughts of European peoples.

In a material sense, this New World increasingly contributed to the welfare of Europe. At the same time the Far East shared in some degree these new influences. In effect, the Eighteenth Century was a growing period—the pre-dawn of the industrial revolution. As a consequence of these various encouraging influences, the population of the world increased by about 400 million people in a century and a half, and at the opening of the Nineteenth Century had risen to about 870 million people.

THEN THERE CAME, at a steadily accelerating rate, the explosive increase in human numbers. The new forces of industrial production, the extension of commerce, of rapid transport of food and other materials and, above all, the revolutionary advances in the medical sciences spread their influences throughout the world. From the point of view of population growth, the most important factor was the widespread adoption of better sanitation, the control of pestilence and plagues and the consequent lowering of the death rate, including the reduction of infant mortality. These advances, in greater or less degree, affected every country whether in Europe, the New World or the Orient. In the short span of four generations, or 100 years, the world's population almost doubled, and as the Twentieth Century opened it stood at approximately 1.6 billion.

Since the year 1900 this extraordinary upward surge in the numbers of people has continued. Another 800 million, in round numbers, have been added to the

world population within the last fifty years, bringing us up to a present population of about 2.4 billion. By the end of the present century, if the same rates of increase continue, and barring the cataclysm of atomic war, the total world population will stand at about 3.5 billion people. No wonder we are witness to a succession of violent and mounting pressures upon the social and political institutions of our times!

Throughout historical times, as today, at least half of all the world's people have lived in Asia. Consequently, the greatest pressures of people appear to be there. Further, in view of the fact that a number of Asiatic countries contain the largest populations of any of the world's regions, they have produced the largest numerical increase. This fact has given rise to the misconception that the *rate* of increase in Far Eastern countries is greater than in countries in other parts of the world. This is not true. For example, the rate of increase in Europe since the year 1800 is considerably greater than that in India during the same period. This surprising circumstance is principally due to the steady decline in the death rate in Europe during this period. Further, there are a number of instances of countries or regions—in the Americas, in Africa and even a few in Europe—where the present rate of increase is either as great as, or in some cases greater than, that of India or other countries in the Far East.

A THEORY that the birth rate is highest among the ill-fed, and more particularly among those who lack protein in their diet, is not supportable as a uniform biological principle for mankind. There exists an overwhelming mass of evidence confirming the self-evident fact that well-nourished people have a high fertility potential. This evidence endorses the all-important truth that birth rate is primarily a consequence of economic and cultural influences.

There are stirrings within the minds of men—awakenings to what can and to what must be done. Already one great country in the Far East, India, is initiating a program to control population growth. Other peoples and countries are becoming more and more conscious of the nature of the dilemma. Sweden has adopted a program, unique of its kind, aimed at attaining a population improved in quality and not diminishing in quantity. A world meeting on the subject of population, under the auspices of the United Nations, is now in prospect. Even though it is planned that this conference shall be statistical and technical in character, and free of what might be called social or political programming, this forthcoming world

meeting should prove yet one more step forward to understanding. The foundation of hope for the future lies in such understanding, all in good time transmuted through the processes of enlightenment and education to peoples of all countries. Such forward steps represent an attainable alternate to the creed of the pessimist who holds that our civilization is incapable of delivering itself from a problem of this character.

THE RAPID and continuing growth in world population is *not* necessarily due to increase in the birth rate, or, more simply, the number of children born to each married couple. In the main it is due to the decline in the death rate. This decline is, of course, a direct consequence of advances in medical science, of widespread adoption of better sanitation and other public health measures. The successes that have been gained so far in the conquest of epidemics and disease and in the alleviation of bodily pain and suffering represent, probably, the most beneficent accomplishment of modern times. The continuance and further development of public health measures, as an essential part of humanitarianism, is infinitely desirable. At the same time, it would be a gross delusion if it were not clearly recognized that such measures represent a potent control over natural forces that keep population in check.

This latter fact lies at the heart of a rational consideration of the desirability of using direct and effective means to control population growth. It lies at the crux of the argument on whether birth control is good or undesirable. The situation is simply this. Modern man has gained the immeasurable benefits that have resulted from the advancement of medical science whose techniques have largely removed the control of human numbers resulting from epidemics, plagues and disease. It must not be supposed that epidemics or pathological conditions are abnormal in nature. Wild animal populations are subject to them, and epidemics are one controlling factor upon population growth, although a principal one is lack of food supply. In effect, then, medical science through "unnatural methods" has at one and the same time ameliorated suffering and vastly increased human numbers. It is an irony of life that this great good should also bring this great problem in its train. The question remains. If we are to accept, as of course we must, the continuing and ever greater boon that public health measures afford humanity, must we not take adequate steps to abolish the disastrous consequences of overpopulation to which medical science is an unintentional contributor?

In the western world the attitude of the Catholic Church is, at the present time, a strong influence in discouraging open discussion and preventing a completely detached approach to a problem which is of such overriding importance to the future welfare and happiness of mankind. Speaking as a Protestant, I find it unjustified, indeed wrong, that those of other faiths should attack the Catholic attitude with a violence that is all too frequent. The answer to the present common emergency will be too long delayed if the search for it is clouded by bitterness or misunderstanding.

It can never be amiss to recall that the Catholic Church is one of the foremost defenders of the free world against the evils of communism and at the same time a bulwark in modern society against the dissolution of the family as a social unit. Both of these significant accomplishments, however, create a paradox. Communism flourishes best amidst conditions of need or want, and such conditions are unquestionably fostered by the pressures of ever-increasing numbers of people upon limited resources. In contrast, the welfare of the family is diminished when standards of living inevitably decline in the face of overpopulation. This is the hour when different faiths and creeds can well join together in the attempt to resolve a paradox that is common to all.

We would not need to have so much concern if the world production of food supply were keeping pace with population growth. Food supply is failing to do this. A recent report of the United Nations Food and Agricultural Organization states that during somewhat more than the last decade the population of the world has increased by 12 percent whereas food supply has only attained an increase of 9 percent. This failure has occurred despite all the current efforts to close the gap.

IT IS TO BE expected that there can be no general agreement as to the prospective rate of increase in world food production—any more than there can be a commonly shared opinion concerning any future event. Some maintain that the blight of soil erosion, so prevalent and even accelerating in many countries, will offset the advances that are being made in technical knowledge, and that consequently we shall be fortunate if the present rates of production are maintained. Others, and especially those who are aware of the recently discovered values of better crop species, such as hybrid corn, or are themselves making discoveries in the science of soil chemistry, envisage immeasurable results if this new knowledge could be generally applied. Still others suggest that

there must be extensive regions on the earth that are not now being used, though they fail to define where these regions may be or to analyze their presumed potentialities. Finally, others claim that we can draw our need from the oceans, or create synthetic substitutes or that the genii of technology, when they really put their minds to the task, will find the answers to the question for which humanity is now waiting.

A composition of existing differences of opinion is obviously most difficult. All must be tempered by two overriding considerations. The first is the condition of man himself, or specifically, the cultural, economic and even political circumstances which govern his actions. The second is the natural environment, or, specifically, the conditions of climate, land form, soil, vegetation and water supply which are favorable, or otherwise, to human existence.

Out of the welter of conflicting opinions and bold, if not careless, forecasts, only one valid or practical observation can be made. It will be time to conjecture how many people the earth is capable of supporting when the increase in the production of vital resources from agriculture, or through other means, is demonstrably keeping pace with population growth. This, it is not now doing.

The discovery of nuclear energy marks an epoch in the history of man. On the other hand, it becomes a meaningless incident if we do not intelligently conserve, use and develop the life-supporting elements of the earth—its soils, forests and water resources, and at the same time measure the numbers of people who can be supported by the productivity of the earth. Impressive beyond comprehension are the technological advances of this era. The stark fact remains—nuclear energy means nothing to the man whose body is starving.

Some people who are wedded to the magical idea of limitless technological development may say, "Give us time. The day may come when even nuclear energy, in some manner, can be employed as an agent to provide the needs of innumerable people." Even if we care to envision such a fantasy becoming a reality, we still must ask ourselves: "Is the purpose of our civilization really to see how much the earth and the human spirit can sustain?" The decision is still ours to make, assuming we recognize that the goal of humanitarianism is not the quantity but the quality of living.

If we evade the choice, the inevitable looms ahead of us—even sterner forces will make the decision for us. We cannot delay or evade. For now, as we look, we can see the limits of the earth. ■

a split nation regains global economic status, struggles with internal problems and provokes new questions on her role as an ally

WESTERN GERMANY COMES BACK

by Edward G. Posniak

WHEN THE German Demag-Krupp combine recently contracted to erect a $150-million steel plant in India, the news came to many as a startling surprise. Here was a company from "war-crippled" Germany moving into territory which once was exclusively British-dominated!

The emergence of the Federal Republic of (Western) Germany as a world economic power bespeaks a startlingly rapid recovery from the prostration that ended the Third Reich. We find this "beaten" country—disarmed, once intended to become totally agricultural under the Morgenthau plan—back on its feet in less than eight years.

Clanking in rising tempo, Western Germany's factories are spilling out nearly 50 percent more goods than before the war. Certain shortcomings and inequities mar the picture. However, those who see Germany's progress in the rosiest light are bestowing lavish credit on a once-obscure professor of economics, Dr. Ludwig Erhard.

As Chancellor Konrad Adenauer's Minister of Economic Affairs, 56-year-old Dr. Erhard has, in fact, taken on luster as the high priest of a new economic "liberalism." European bankers and industrialists applaud this brand of liberalism as a vindication of Adam Smith's ideas on *laissez faire*.

A roly-poly figure, Ludwig Erhard looks the prototype of the jolly, beer-drinking, cigar-smoking German professor of the old days.

As a staff member of the Commercial Institute at Nuremberg two decades ago, Dr. Erhard gave up plans to teach when required to join the Nazi party. Discord with officials finally drove him out of the Institute in 1942. He acted, however, as consultant on economic problems to the gauleiter of Alsace-Lorraine during the occupation of France.

For the three years after V-E day, Western Germany remained divided among the American, British and French zones of mili-

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Edward G. Posniak draws on five years' experience in foreign economic policy with the State Department and two years with the International Monetary Fund. Recently he prepared a series of reports on foreign economic policy for the Council on Foreign Relations, Inc.

tary occupation. Under Allied experimentation with de-Nazification, de-cartelization, dismantling, reparations and restitutions, the country stayed nearly paralyzed. Whatever history's verdict on these programs may be, they did not produce a viable German economy.

Until 1948, German industrial production and exports sagged, reaching only 50 percent of prewar levels by that year. The three zones lived largely on heavy helpings of aid from America. But as the Marshall Plan began and relations with the Soviet bloc soured, Allied policy in Germany shifted from neutralization to reconstruction.

Erhard's new role and Germany's revival did not get underway until June 1948, when the Allied occupation authorities enacted a sweeping currency reform. They issued a new *deutsche mark* which replaced all cash in circulation, bank deposits and bonds—in the ratio of one to ten.

The currency reform implemented the change in Allied policy where it seemed to count most. It led to the writing off of many losses and obligations, encouraging businessmen to get busy behind their desks again with clean account books.

Consolidation of the Western zones into one economic unit lent momentum to the recovery. And gradual transfer of political power to the hopeful new government of the Federal Republic at Bonn, proclaimed in May, 1949, helped further.

For his part, Erhard, bent on shaping a "market economy," stripped away controls prevalent not only under the Third Reich but under the Monarchy, the Weimar Republic and the Allied occupation as well. He removed price controls and government subsidies. He eased import and exchange restrictions. And he acted to stabilize the currency by limiting credit and maintaining a balanced budget.

These steps highlighted his new "liberalism." Beyond question they constituted a policy new to Germany, with its history of strict governmental regulation and even tighter private cartel restrictions.

DURING THE four-year period since 1948, Germany's exports quintupled in dollar value. Her balance of payments to the dollar area—the U. S. and Canada—was improved to the point where it showed a surplus by 1951.

Unlike most of her neighbors, whose postwar recovery efforts brewed inflation, Germany remained relatively free from a steep rise in prices. High interest rates and a balanced budget checked credit volume and money supply, without curbing the expansion of output and exports. "Sound money" men throughout Europe thumped each other on the back over this

achievement of traditional monetary and fiscal policies.

Along with the leverage exerted by Dr. Erhard's policies, a number of other factors have contributed to the degree of prosperity Western Germany now enjoys.

Among these, perhaps the most important was the presence, throughout the postwar years, of great productive capacity—in both plant and manpower. Much more equipment than had been estimated remained unscathed by Allied bombings. The work force, fed by the influx of refugees from the Soviet zone, was more than sufficient. Put to work, this capacity was bound to boost output.

Secondly, the Federal Republic bore no such handicap of defense commitments as that shouldered by NATO neighbors. Allied occupation costs burdened the government's budget, but German industry was left free to concentrate on peacetime production and the recapture of foreign markets— at a time when competitors were diverting much of their resources to arms.

This competitive advantage has been exploited to the hilt by German producers and traders to the dismay of their British, French and other rivals. It explains in part the apparent lack of enthusiasm for rearmament among industrialists of the Ruhr.

Furthermore, continuing massive American aid helped stimulate recovery. Since V-E day, aid funds under grants by the Economic Cooperation Administration and the Mutual Security Agency, plus "civilian supplies" by the Army, have topped $4 billion. This stream of funds and goods helped crank the wheels of German industry, acting as a Keynesian pump-priming mechanism rather unique in a classical "market economy."

Lastly must be counted Germany's traditional skill and energy. The English proverb, "The German's wit is in his fingers," has not been proved false.

WITH THE main driving forces behind national recovery taken into account, have any harmful by-products resulted? Where do shortcomings still exist?

Some of Dr. Erhard's policies manifestly worked for the good of the country as a whole, notably the liberalized export-import program which helped expand her foreign trade. But while restrictive credit policies and a balanced budget helped avoid inflation, they did so with the heavy penalty of continued unemployment.

The lifting of price controls sparked production, but at the cost of substantial price increases for coal and steel. (These industries remain in the grip of private cartel-type arrangements despite the Schuman Plan.) As a result, in

many industries Germany cannot attain production costs lower than her competitors, as she did in the early years of her recovery.

Another harmful by-product of Erhard's policies stems from what has been done to raise investment capital. The level of investment in recent years climbed very high—some 20 to 25 percent of the gross national product. Many German investors started with know-how and scratchy credit and skimmed quick profits to enlarge their working capital. Encouraged by favorable tax legislation, manufacturers have raised about 60 percent of their funds for expansion through such financing from their own resources.

In granting advantages to self-financers, however, the revenue-hungry government has been forced to shift the tax load to others. Present rates deeply cut the buying power of wage earners generally and remove potential investment funds from the hands of those earning higher incomes. As a result, maldistribution exists, reducing the total effectiveness of the amount of capital available. Hundreds of West German firms lag in growth and output for want of capital, while others shoot ahead.

Altogether, the picture presented by the new Germany appears to be one of prosperity mixed with hardship, of islands of luxury surrounded by lakes of poverty. Modernistic shop windows bulge with exotic goods, and gay night clubs overflow with prosperous businessmen. But only a few miles away, emaciated and dejected refugees from the East zone huddle idly in tents and shacks.

THE EXPLOSIVE potentialities of these contrasts may already be seen in a resurgence of neo-Nazi movements, one of the costs that had to be paid for Dr. Erhard's policies. No wonder leaders of labor unions and refugee organizations, and most American officials as well, are less enthusiastic in their appraisal of Herr Erhard's "liberalism" than are German bankers and industrialists.

True, Germany's *employed* workers appear to be well off, according to official statistics. The prewar ratio between wages and prices has been restored. But the prewar level of *net* real earnings has not been reached because of higher taxes and social insurance rates. Still, by contrast with the "work norms" and consumption levels of the East zone, the Western workers' standard of living looks high.

Granting present deficiencies, what of Germany's economic future?

The recovery rests on a solid base of productive capacity, skilled manpower and a high rate of investment. Production and exports probably will continue to expand, though at a slower rate than be-

fore. Following a 74 percent jump in exports in 1951 and an increase of only 16 percent in 1952, there has been a leveling off this year which is causing concern to the administration in Bonn. The recent increase in production costs accounts for this in part.

On the whole, however, the dynamism and efficiency of German industrial management augur well for the country's commercial prospects.

Such world-renowned firms as Carl Zeiss and Zeiss Ikon, makers of optical instruments and photographic equipment (including the famed "Contax" camera); the automobile manufacturers Daimler-Benz, Opel and the makers of the sturdy "Volkswagen," known throughout Europe as the "VW"; the giant concerns of Krupp, of sinister fame, Siemens and AEG, makers of electrical equipment—these and many other German companies are swiftly recapturing their prewar markets overseas. They are pushing their sales abroad against all competitors—British, French and even American.

Two big uncertainties overhang Germany's future. One is the East-West division, with the resulting uncertain and depressed status of West Berlin. Partly cut off from the Western markets on which its heavy industry depends, Berlin is kept on the dole by Bonn and Washington as penniless escapees from the Soviet zone pour in daily.

Beyond and around Berlin lie the important industrial and agricultural areas being organized, much against their will, into a "people's democratic" arsenal of Soviet power. The economic ties between the Eastern and Western zones penetrate as deeply as their bonds of language and common heritage. In the long run, as the recent riots suggest, it will be impossible to prevent their unification.

The second question, also linked with the future of East-West power relations, concerns Germany's economic status in Europe and in the world generally. Thus far, deprived of her large and profitable prewar markets eastward beyond the Iron Curtain, Germany depends more than ever on expanding her markets in the Western world.

As in India, she is already crowding the established position of others, notably Britain. From Southern Asia, the Middle East and Latin America ring angry and anguished outcries from British businessmen and others over the inroads made by their German competitors. The seeds of dissension sown in an expanding world economy could grow, in a period of trade contraction, into those "internal contradictions of the capitalist camp" that Stalin's heirs hope for. ■

The Company That Unions Help Run

—MacKie & Kamrath, Architects

with sixteen union men on the board of directors, the Insurance Company of Texas operates in 23 states and has increased its business nearly 800 percent in the last two years

by Stuart Long

WHEN PERT, BLONDE Charlotte Morgan, organizer for the Office Employees International Union, stepped out of her car at 6336 Richmond Street in Dallas one fall day in 1951, she saw a two-story, brown brick office building much like a hundred others in "Big D."

But inside she found something she'd never seen before. John G. Vaughan, senior vice-president of The Insurance Company of Texas and its management company, Jack Cage & Co., met her in the reception room. Vaughan, veteran of 40 years in the insurance business then led Mrs. Morgan to the desk and phone he had set up for her to make her job of unionizing his company easier.

A year earlier, if anyone had told either of them that this would happen, he probably would have been labeled a lunatic, and rightly so. Vaughan's companies had never been organized, and Mrs. Morgan had never crossed a welcome mat laid out by management.

But the two of them, smart, successful leaders from labor and management, were caught up in a colorful Texas movement in which labor is management and capital; management is labor and capital; and capital is labor and management.

In addition to being the union organizer, Mrs. Morgan was also a stockholder and a director of the company and one of Vaughan's bosses.

The ICT story started on an afternoon late in 1950 when BenJack Cage, its president, was driving along the straight, level highway from Fort Worth to Dallas. It was quitting time at the vast Chance Vought aircraft plant at Grand Prairie. Traffic waited while thousands of men poured out of the factory and headed homeward.

Cage, at 33, had made a fortune in the insurance business in the five years since returning from the Air Force. When he saw some of the men going to their union headquarters building down the road, he got the idea of how he could sell insurance to working people—through their unions.

As Cage eased his Cadillac into the jammed stream of five o'clock traffic moving toward Dallas, the idea for the present Insurance Company of Texas took form in his mind. Just because it hadn't been done before did not mean it wasn't a likely possibility to the towering, 220-pounder.

Finding union officials standoffish at first, Cage kept digging. Finally, through Nile E. Ball, attorney for the Texas State Federation of Labor, he got a chance to broach the idea to the 400 delegates at the State convention early in 1951.

As operator of a news bureau in Austin, Stuart Long watches for doings in Texas of national as well as regional and local importance.

By May of that year he had worked out an arrangement by which he gave Texas A. F. of L. unions, and their members, an option to buy two-thirds of the stock of the Insurance Company of Texas, then a casualty company with $311,065 capital stock and surplus. So that no single group would be able to control the company, a limit was set on how much stock could be bought. No local union could purchase more than $10,000 in stock; no individual more than $1000 worth.

By Labor Day, 1951, the $207,000 to give labor two-thirds control was paid in or subscribed on an easy payment plan, and a new board of directors, made up of sixteen union men and women and seven members of Cage's management firm, assembled in Dallas to take over operations.

It was decided to expand capital still further, so stock sales were continued, with the price gradually rising from the original $20 a share to $24 a share in mid-1952, when stock sales were cut off.

INSURANCE payments poured into the ICT, as carpenters and printers and longshoremen and all the other skilled workers who make up the AFL unions started doing business with themselves. ICT bought another company which was doing business in thirteen other states, and merged it with ICT. Before the

sale to labor, ICT operated in Texas and Louisiana with 120 agents. At last report, ICT was operating in twenty-three states and Alaska with 3675 agents.

About 100,000 Texans now own the company through personal or union stock holdings.

During 1952, the first full year of operation, the assets of ICT, the parent company, grew by 352 percent. Capital and surplus reached more than $2.5 million at the end of 1952, an eight-fold gain in eighteen months. Installment payments on stock purchases will continue to swell the capital structure over the next three years, providing the financial reserves for an ever-growing casualty insurance business.

A life insurance company was also set up quickly, and named Life Insurance Company of Texas. And, because Texas is a state notorious for high interest on credit, the ICT Discount Corporation was organized, with its common stock wholly owned by ICT. Its preferred stock was offered for sale to the general public of Texas, and within a few months $6 million worth of stock had been bought (some on the installment plan) and ICT was in the commercial loan discount business with assets of $5,952,578.

A retail finance firm, Partners' Finance, is now operating in four Texas cities, and eventually will cover the state. Union members now can borrow from themselves as well as insure themselves.

HOW ICT IS WORKING out is perhaps best demonstrated by a brief speech a stocky little multi-millionaire oilman, J. Marion West of Houston, made at an ICT stockholders' meeting in Dallas.

West had owned a small block of original ICT stock, and was one of the non-labor one-third at the outset. Though a valuable asset on a number of high-powered boards of directors, he hadn't been chosen for the ICT board.

"I belong to many boards of directors," West told the stockholders. "But I would give up any of them to get a seat on the board of this company. It's the greatest thing that has ever happened in business, and I want to watch it happen."

The stockholders, impressed, voted the millionaire a seat on the board. An electrician rose to make the motion. A hodcarrier seconded it.

The Houston Hodcarrier's Local No. 18, virtually an all-Negro organization, was the first union in Texas to buy the maximum $10,000 worth of stock. So grizzled, canny Freeman Everett, leader of Local 18, naturally became a member of the board of directors. He serves as chaplain, and opens and closes every board meeting with a prayer and a benediction. For a Negro to

do so makes an unusual sight in a swanky, paneled boardroom at one of Dallas' skyscraper banks.

Every month sees new records set for insurance. In 1950, before labor joined ICT, the company had a casualty insurance premium volume of $1.9 million. In 1951, it more than doubled. In 1952, the new volume tripled. In 1953, premium volume is running at the rate of $15 million a year!

ICT'S ROAD hasn't grown without fits and starts. Its democratic, widely dispersed ownership requires that any proposed change in policy be carefully explained by officers and directors. At the outset, Cage's idea was to sell insurance directly by mail or through local unions, without using agents.

That would have made a mutual company setup possible, with even lower cost insurance. But that wouldn't work, for two reasons:

One, and an important one to the AFL men with their lines of jurisdiction, was that there is an Insurance Agents International Union. To have the secretaries of the Carpenters locals selling insurance would have been an infringement of jurisdiction.

Second, it became clear that selling insurance in itself required experience and training, just like the craft skills of the unions. So ICT embraced the traditional agency system, and is glad to be using independent insurance agents.

"Instead of having several thousand insurance agents over the state and nation fighting us," Cage explains, "we've got several thousand of them fighting for us as our agents."

William J. Harris, dignified, easy-going Dallas musician and city councilman, is president of the Texas State Federation of Labor and a vice-president of ICT. Paul C. Sparks, a Houston carpenter and executive secretary of the Federation, is board chairman of ICT. They are always on hand for ICT sessions, and take a big hand in its planning, along with president Cage.

ICT has set out to show the business community of Texas that "labor is people, too," and with some success. A series of labor-management dinners has been held in major cities of the state.

Local leaders in business, finance, industry, government and labor are invited to hear Cage, Harris and other ICT officers explain this unique experiment. Insurance industry leaders who at first threw cold water on the plan have watched it carefully. Now their complaint is that they didn't think of it before Cage did.

FOR THE MOST PART, the company's executives are career insurance people, men and women recruited

from all over the U. S. by Cage as the ICT operation has grown beyond the physical ability of Vaughan and himself to handle it.

But some of the top personnel have been recruited from labor ranks. Jay McMahon, former business agent for a big Gulf Coast Operating Engineers Local, is a vice-president, heading the securities section. M. M. McKnight, a printer and mayor *pro tem* of Fort Worth, is manager of ICT's branch office there. Several others work in liaison with labor unions in general.

The ICT group has outgrown several times the original home office building in Dallas, which was adequate for the single, small insurance company in 1951. At one time it was scattered in seven office buildings in Dallas. Right now, it is housed in two floors of the huge Merchandise Mart, while a $1.5 million home office building is being built (with union labor, of course) on the Central Expressway in Dallas. Standing out from afar on the new, modernistic building will be a sign with the ICT slogan:

OWNED BY UNION MEMBERS
BUILDING A BETTER AMERICA

ICT earned a small operating profit in 1952, but even if it earns a large one in 1953, no dividends are expected by the stockholders. They were told theirs is "growth stock," which probably won't yield dividends for five years. But stockholders who have needed their money in recent months have been able to sell advantageously. Stock bought at $20 a share in 1951 now sells for $30.

APART FROM profiting through ICT, the people who have invested in it want to demonstrate how union members can build a successful business without in any way sacrificing their union ideals.

ICT employees are paid high wages and salaries, well above the average, and carry more fringe benefits than most. Personnel policies are relayed to employees through their union, and just because some of them own stock doesn't mean that they don't press for better working conditions, so they can improve their living standards as the company they are building improves its financial position.

Cage, the driving force of ICT, holds an honorary card in the Musicians Union given him by Harris. The company president, who admits he once was "anti-labor because I didn't know anything about labor," now complains to the directors because when they check to see that unions and their members own at least two-thirds of the stock in ICT, they don't count his nearly one-third as "union-held" stock.

"After all, I'm a union man, too," he argues. ■

Professional football, rib-cracking outgrowth of the college game, returns to Baltimore after a two-year lapse. For most teams, playing the game is easier than staying in the black.

The High Cost of Touchdowns

by Stuart McIver

IN ELEVEN cities of the National Football League some 2 million fans will turn out this fall to watch the bone-jarring sport of professional football.

The fan who takes his wife will pay around $7 for a pair of tickets. A program costs him a quarter, and he'll pay extra for hot dogs, hamburgers and containers of hot coffee. Add his transportation and the game may cost him upwards of $10. He's spending a lot of money, but he doesn't mind because he likes the brand of ball the pros play.

But watching from high in the stadium, he has no conception of what it costs the teams on the field to produce the wide-open football he sees. He doesn't know that the twenty-two sturdy young men piling into each other with workmanlike vigor represent a total investment for the two teams of over a million dollars.

The fans in Baltimore are probably more aware of the financial problems of pro football than those in the other cities, where the game is deeper-rooted. At the end of last season Commissioner Bert Bell announced the terms under which Baltimore could return to the league after a hiatus of two years.

"Sell 15,000 season tickets between now and the league meeting

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Stuart McIver, a sportswriter with the Baltimore "Sun," wrote this article on assignment for CHALLENGE MAGAZINE.

January 22, and you'll show us you're ready, willing and able to support pro football," said Bell.

Fifteen thousand season tickets at $19.80 a book add up to $297,000, a sum which few thought Baltimore could raise from advance ticket sales.

But Bell had his reasons for setting the figure so high. Running a pro football team never has been a dependable way of making money. In a bad year a team can lose two-and-a-half times as much as it can earn in a good year. To make football an even riskier venture, expenses have risen 450 percent since before the war. In the thirty-four years the National League has been operating, the mortality rate has been high. Forty-six franchises have been awarded. Thirty-four are dead. Of the twelve survivors only four have operated in the black over a long stretch—the Chicago Bears, New York Giants, Washington Redskins and Green Bay Packers.

BALTIMORE is no stranger to pro football. The city had a team in the All-America Conference which from 1946 through 1949 competed with the NFL. When the AAC folded, Baltimore joined the older league. Here the Colts lasted just one year. In their four stormy seasons they lost their hopeful backers $750,000.

So Baltimore hardly figured to be a good risk. But, in pro football, who is?

At any rate, Bruce Livie, a wealthy automobile dealer, took charge of the ticket drive and turned his sales force loose on a new kind of selling job. In just under four weeks the league was notified that Baltimore had bought its quota of 15,000 books. The Colts were back in business.

And what a business! The more than $300,000 raised in the drive promptly shrank to about $250,000 —or one-half the amount needed for the Colts' budget—when taxes were deducted.

IN PRO FOOTBALL everything runs into money. It costs $150 to fit a player in a football suit. The team needs about fifty uniforms, a $7500 item. The pre-season training camp costs another $20,000.

It costs money to move the thirty-three-man squad, its coaching staff, equipment man, trainer and publicity man around the country. The Colts' jaunt to the West Coast to play San Francisco and Los Angeles costs $14,000. A similar trip to the Chicago area to meet the Bears and the Packers means another $10,000. It costs $440 a day to keep forty men in hotels and food on the road.

All teams take moving pictures at $175 a game. Twelve league and six exhibition games run that figure to $3150.

In addition, a club must pay its coaches, its office staff, its office rental, its stadium rental. All these figures add up, but they are paltry indeed compared to the biggest single item of expense—players' salaries.

"Our player pool runs around $225,000," says Don Kellett, Colts' president and general manager. "That'll average out to about $7000 a player. If we pay one player a little more, that just means somebody else gets a little less."

Therein lies the whole precarious problem of winning football games. Maintaining morale is highly important in pro football. Part of that job belongs to the coach, the rest to management, which must see to it the high salaries go to the men who are producing. If the big money is tied up in fading has-beens or in untested rookies, then the real nucleus of the team is an underpaid group. The squad is unhappy and the sportswriters tell the fans a good team is losing games because of dissension.

THE PAYROLL BALANCE is a delicate one. If a team tries to skimp, it can't lure players. If a team goes overboard on salaries, its budget rises sharply and it has to win constantly to meet expenses.

The answer is to keep the payroll perfectly tuned. Pay high salaries only to men who produce, like Otto Graham and Bob Waterfield. Figure six months in advance which player will have a good year, which a bad one.

Rookies are a problem. A team must keep building, but it is difficult to foresee how college stars will go in pro ball. The price for untested first-year men can run high. At the January meeting, the Colts' first draft choice was Billy Vessels, All-America halfback out of Oklahoma University. They offered him a five-year contract calling for $60,000. Even that wasn't enough. Vessels passed up Baltimore for a more lucrative offer to play in Canada. Had the Colts landed him, he might have made the team a sure winner. Or he might have been a source of trouble for years to come. It's a chance you take in a hazardous business.

Where does the money come from to meet the half-million-dollar budget that most of the league teams have? Commissioner Bell, taking a typical team, breaks down likely sources of income this way:

Six exhibitions	$ 65,000
Six games on the road	135,000
Radio and TV rights	80,000
Program sales	15,000
Quarterback clubs, film showings	10,000
Take from home games, (20,000 average attendance)	180,000
Total	$485,000

That figure is just under the

half-million needed to break even. That's where the player morale problem comes in. A good team can raise the 20,000 average home attendance figure enough for a profit. A loser can mean business disaster.

WHAT'S the game's future?

Bell is convinced the league's survival depends on having hard-headed businessmen lead the clubs. Many failures in the past occurred because wealthy men used pro football as a plaything. The trend now is toward sounder practices and better business organization.

Television, long viewed as a threat to all sports, may well prove the salvation of pro football.

"It will make fans for us if we can handle it right," says Bell. "Otherwise, it will ruin us."

The television program of the NFL clubs would seem a common sense approach: no video in your city of any game if you are playing at home; a telecast into your home city if you are on the road or are idle. Television never competes with the home team, yet it stimulates interest in pro football in general. And it pays big money for TV rights.

"Television and exhibition games —we couldn't live without them," says Kellett.

Pre-season exhibition games are money makers because player salaries begin only with the first regular season games. Thus the club can keep a bigger cut of exhibition gate receipts.

Pro football, despite the funny bounces the ball and the business take, probably will go on diverting millions of us for years to come if the men in charge don't forget to keep books and adjust to changing conditions. ■

Just Average

The average American spends $11 a year on candy.

The average American family spends a fourth of its food budget on meat.

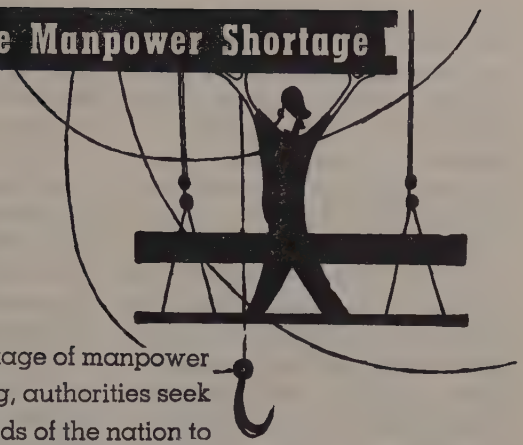
The average schoolteacher in the United States earns $3290 a year.

The average American worker loses 7.5 days of work a year because of illness.

The average age of a member of Congress is 53.

Nearly 10 quarts of milk are required on the average to make a pound of butter.

Facing up to the Manpower Shortage



with a long-range shortage of manpower impending, authorities seek to adjust the needs of the nation to opportunities for the individual

THE KINDS of jobs we work at and the nature of the careers our children choose to follow will directly affect the degree of prosperity we can enjoy ten years from now. It is simply a question of finding enough people with the proper skills to fill those jobs which have top priority in our economy.

The consequences of how we meet this problem will touch each of us as individuals and the nation as a whole. If some of us do not mesh our skills with the needs of our evolving economy in the next few years, we may let ourselves in for long personal recessions. And if enough Americans do not so adjust, the country may suffer from production cuts, layoffs and a decline in purchasing power.

So predict employment experts who find gaps in some fields of employment, and gluts in others, as they examine the nation's manpower supply.

On the bright side, these studies suggest ways toward attaining sharp gains in individual income and security. They point not just to potential shortcomings, but to potential new peaks for the country as a whole.

Today, costly shortages exist in various categories of both skilled and professional workers.

Giant corporations such as General Electric and General Motors, as well as smaller companies, are finding it increasingly difficult to obtain the trained engineers and technicians they need. The Bureau

of Employment Security of the Department of Labor revealed one year ago that in Cleveland alone four out of eleven machine tool factories were failing to meet defense production schedules because of a shortage of trained machinists.

The current scarcity of teachers and doctors also blots the manpower picture. With the demand for trained technicians and specialists due to grow, a shortage of teaching and training personnel is crucially serious. Similarly, the lack of doctors threatens the health and physical welfare of the work force of the future.

MOST ECONOMISTS agree that the situation will get worse before it gets better. For as the demand for highly trained specialists increases, the total working population from which they must emerge will be decreasing. Such organizations as the Bureau of Employment Security and the privately run National Planning Association predict a tight labor market for at least another ten years.

The military will continue to maintain a constant number of about 3.3 million men and women for some time to come—even if there is no shooting war. That means 3.3 million fewer hands for production. In many individual cases it means interrupted training and study — which further delays entry into normally productive occupations.

An indication of how generally tight the manpower supply has become is to be found in the worried outlook of draft officials, who are having trouble filling their quotas. These quotas are expected to stay at 23,000 per month until July 1, 1954, when they will probably rise to about 50,000 to provide for replacements and maintenance of forces at present levels.

Surprisingly, only about one-twelfth of our Selective Service registrants are classified as eligible for immediate induction. The many deferments and exemptions for students, essential workers and World War II veterans partly accounts for this. But, as a recent report by the National Planning Association points out, if the Armed Forces did not have to reject one out of every three young men for mental, physical, moral and educational deficiencies, there would be no military manpower problem.

Even without these heavy military demands, our pool of available manpower would be shrinking. We are now feeling the growing pinch of the low birth rates of depression days.

By July 1960, only 33.9 percent of the population will be in the vital 20-44 age bracket as compared to the 39 percent it was in 1940. With or without a continuation of the draft through 1960, this shrinking

proportion will have to provide for a growing number of non-productive old folks and children.

After 1960 the manpower shortage should ease as the bumper crop of war babies grows up and enters our labor force. But, and this is what worries the experts, will we have the manpower to continue expanding production until then?

MOST ECONOMISTS would answer with a cautious "yes." In our manpower supply some surplus "fat" remains to be trimmed and regrafted. Certain "glamor" fields such as law, journalism and the theater continue to be overcrowded. Such trades as shoemaking, gunsmithing, tailoring and so on are becoming obsolete as our economy relies more and more on mass-produced goods. Meanwhile openings for aircraft mechanics, tool and diemakers, ship riggers and skilled lathe operators go begging.

Persuading potential lawyers to take up teaching, or some present shoemakers to master a mechanical trade, will not be easy. But unless we do much to adjust labor supply to labor demand, our economy may lose its present stride toward constant expansion.

Regional shortages present another problem. A new survey by the Bureau of Employment Security indicates that while some unemployment afflicts New England and the Middle Atlantic States, the cities of Cleveland, Pittsburgh and Detroit complain of labor shortages. This misalignment of our human resources, a relatively new development, might easily be resolved except for one stubborn fact: many people become emotionally attached to their homes and communities and resist moving.

In a totalitarian state, such as Russia, no such disorder exists. Siberia may not be the most comfortable place in the world in which to live and raise a family, but if an aircraft factory in Igarka needs machinists, Siberia it is for Ivan Ivanovitch—by force if necessary.

Nor are Soviet planners troubled by a future shortage of engineers and technicians. The state promotes technology while playing down other fields. Result: Soviet universities graduate 30,000 engineers a year compared to our 23,000.

BUT WE DO things differently here. A man's right to choose the kind of work he likes best brooks no government interference in the interest of a manpower program. In meeting manpower needs, government will of course play its part, as will business, schools and labor unions. But the final choice of occupation will be up to the individual.

Proper guidance and a more efficient use of the available manpower

seem to be the first necessary steps. With these in mind, employment authorities suggest:

• Industry continue to expand its apprenticeship programs. Operating under standards set up by joint union-management-government apprenticeship councils, such programs already reach approximately 200,000 young men. They combine practical shop experience with classroom study.

• A greater role for women in industry. Women, who make up one-third of our labor force, presently fill the less specialized jobs. With more intensive training, they could increase their industrial usefulness and draw higher pay as well.

• Continued educational efforts to end racial and religious prejudice which has already robbed the nation of thousands of skilled technicians and professionals.

• Improved medical and educational care for the thousands of men and women now considered unfit for useful service.

• The federal government continue to conduct employment outlook surveys. Such surveys, which are made available to business concerns, schools and unions, can help ease both occupational and regional unemployment. As a corollary to this, the federal government should seek to assign defense contracts to areas of labor surplus—with state and local agencies cooperating to get optimum efficiency out of the available labor force.

• Trained vocational guidance counsellors in our schools avail themselves of the latest job surveys. A practical guidance of youngsters, on the basis of their abilities, will make it possible to avoid the "blind alleys" when future breadwinners are ready for specific training.

Adjusting to future manpower needs and opportunities may require some irksome re-examination of personal goals and values. As our economy expands and business and industrial skills become more specialized, the unskilled factory worker, the file clerk and the "drifter" will find themselves in an increasingly precarious economic position. Those who have trained themselves to fill our manpower needs, on the other hand, will find greater opportunities as science, technology and knowledge lead us into an era of expanding horizons. ■

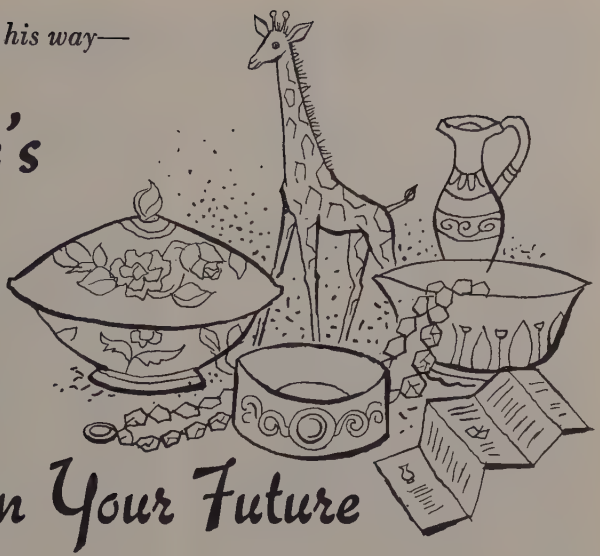
●

No Sale

A swanky Manhattan men's shop has always been proud of selling silk robes at $750, gold cuff links at $235 and suspenders at $245. Recently, however, it has had to acknowledge it could find no takers for its $57.50 handkerchiefs.

if Sid Anschell has his way—

There's an Import in Your Future



by W. J. Granberg

ON THE SIMPLE HUNCH that Americans put a premium on unique gifts from abroad, Sidney C. Anschell decided to expand the scope of his Seattle import business. Instead of limiting his imports to a relatively few items for a small number of customers, he planned to become a buyer for thousands of people who desired to be regular purchasers.

Anschell put importing on a mail-order basis, requiring purchase-scouting in twenty-four countries for more than 200,000 Americans. His novel business is the International Gift of the Month Club, patterned after the operations of various book clubs. With some forty years of experience in the importing business behind him, he launched this new venture about four years ago. Its headquarters are in Seattle, Washington, with a European regional office in Paris.

To garner club members, Anschell uses two methods of advertising: direct mail, and magazine and newspaper space. All direct mail pieces, on which he spends approximately $100,000 a year, are mailed from the Paris office, with the printing done in France.

Returns on mailings, going primarily to lawyers, dentists and physicians, are unusually good—

W. J. Granberg is a free-lance writer specializing in articles about people with interesting occupations.

ranging from 3 to 5 percent. Anschell attributes the high rates of return to the fact that his literature carries a foreign stamp and return address. Aware that a good deal of direct mail receives only casual attention when it falls on a busy man's desk, Anschell has lifted his mailing material out of the routine class.

"A man would have to have a lot of will power to throw away, unopened, a letter from Paris," Anschell reasons.

In addition to the high returns on the Paris mailings, costs are lower than they would be in the States. For example, labor for addressing purposes costs him about 1000 francs a day, or $2.85. Paper and printing are cheaper, too, and command attention by virtue of their foreign appearance.

BECAUSE he sells in dollars and buys the gifts-of-the-month in foreign exchange, Anschell gains a monetary advantage. In order to spare his club members the cost and red tape of import duty, the price of the gifts he buys is always less than one dollar, in U. S. money. Because of the favorable exchange rates, attractive gifts may be had for that amount in countries where he does his buying. And prior to launching the gift club, he spent more than a year's travel establishing contacts among foreign industries and craftsmen as sources for his monthly purchases.

All gifts are mailed to club members directly from the countries of origin, a novelty that appeals to the customers. Anschell counts heavily on the fact that women like to receive surprise knick-knacks.

One month's gift may be a crystal necklace from West Germany; the next a tooled leather wallet from the Republic of San Marino; or a bon-bon dish from Milan. Each gift is accompanied by a small folder in which the gift and the country of its manufacture are described. The leaflet adds that little touch of "flavor" which so many people seem to desire.

THE IDEA of the International Gift of the Month Club has caught on quickly with the public. Increasing membership as well as hundreds of unsolicited, appreciative letters are proof of success.

Acting on the principle that the customer is always right, Anschell answers complaints immediately, and always to the customer's advantage. Good will is his most valuable stock in trade and he makes every effort to maintain it.

In the meantime, he has put importing on a paying basis by what he calls his "Little Marshall Plan," which puts American dollars to work in the small industries of twenty-four countries. ■

So You Want to Invest

what mutual funds can and cannot do for you

IN OCCASIONAL STATEMENTS on behalf of the American system of private investment we may catch a note of ideological importance. Take, for example, the recent words of Keith Funston, President of the New York Stock Exchange.

Citing a need to enlist a wider range of men and women among the owners of stocks and bonds, he declared: "A nation of shareowners is our strongest defense against foreignisms..." and "public ownership of the means of production is perhaps the only way by which we can ensure the proper function of an enlightened capitalistic society."

To most of the middle-income earners upon whom "public ownership" would be based, it's doubtful whether the ideological elements are of primary consideration.

Today, with little or no concern for such implications, the average man is evincing a rising awareness of how ownership of dividend-producing shares in industry may contribute to their *individual* well-being. Many middle-income earners are already buying stocks and bonds regularly. One of the principal ways they are doing so is by means of mutual funds—the fastest growing method of popular investment.

Mutual funds operate through a pooling of many chunks of capital, most of them small, under the direction of professional investment managers. An individual fund typically invests its accumulated capital in the stocks and bonds of a number of corporations and often some governmental bodies. The fund issues shares in its own name, paying dividends which rise or fall according to the combined returns on its investments.

This method meets the need of people who have a little money to spare, but lack time or knowledge to follow the stock market. Theoretically, mutual funds offer maximum stability and safety to such investors, because they don't tie their money to the good or bad fortunes of any one or two firms.

ALTHOUGH they got underway in Britain nearly a century ago, mutual funds did not catch on here until the enthusiastic Twenties. In just five years—1924 to 1929—

they grew to $7 billion invested. The crash exposed much malpractice among mutual funds and knocked them down to $1 billion, nearly killing them all off. They revived in 1940 under the Investment Company Act.

HAVING burgeoned in the past ten years, mutual fund companies now approach the 1929 peak in assets. The more than 100 of them in action (with new ones forming continually) represent about one-eighth of all individual stock market investors.

Some Americans might still look for means of reaping riches overnight, conceding a risk of being wiped out financially. Mutual funds are not for them. The Investment Company Act requires adequate beginning capital before a fund can go into business. It calls for diversification, with not more than 5 percent of assets invested in any one corporation, limits speculation stringently, and in other ways assures sound and ethical operation. Many states add their own requirements.

Given this basic protection, the wise potential investor in mutual funds chooses his company with a keen eye to its methods and aims. He may want to build up his savings toward old age. Or, he may want to try for sizable, quick returns with relatively high risk, or for modest returns at minimum risk. Among the many and various companies, some will meet his needs and requirements better than others.

The policies of mutual fund companies range from bold to ultra-cautious. A few companies buy only common stocks. Most mix their investments among stocks and bonds. Some handle nothing but bonds. Many seek out fast-sprouting young firms in new industries. Others turn to entrenched standbys, such as the ever-stable utility companies.

It is in the way he directs his investments toward the stated purpose of the fund that the manager of a mutual funds company most valuably serves the small investor. And his salesmen should be willing and able to explain the where and why of major blocks of securities.

REGARDLESS OF POLICY, certain normal risks lurk in the purchase of shares in mutual funds which no amount of astuteness on the part of their managers can cancel out. The usual risks of the market place are forever present. These include general business cycles, of course, as well as chances that stock values, or their returns, may turn downward for some of the companies in which investments have been made. Furthermore, the managers of mutual funds cannot control the prices of stocks where

supply and demand are concerned; nor can they demand profits from a corporation operating at a loss.

In short, mutual funds *cannot guarantee* good returns; but their proper management can enhance the buyer's chances for reasonable gains.

For his own part, when estimating the rate at which his profits will accumulate, the buyer should make himself familiar with his company's record. He should refer to the returns over the past two or three years as a guide toward the same span of time ahead.

Allowing for uncertainties, mutual funds remain one of the most profitable means of investment apart from informed private dealing in individual stocks and bonds. On the average they return to the buyer 4.5 percent in dividends annually.

THERE ARE two prevailing types of mutual funds. Of the older, "closed-end" types of companies, most began operations decades ago. They issued shares in their own name up to given limits of capitalization, then "closed." Shares in closed-end companies change hands in the open market just as do shares in other corporations. Their selling prices are set by supply and demand.

The second type of company is the more rapidly growing "open-end." It sells its shares daily through its own outlets, not on the open market. Also in contrast to the closed-end company, it prices its shares according to the current value of its own assets.

In both closed and open-end funds, the management acts with a view toward two types of profits: dividends and capital gains. (When a security is sold at a price higher than that paid for it, the profit is a capital gain.) Both profits pass on to investors in mutual funds in proportion to the number of shares they hold.

For their services, mutual fund companies charge about 8 percent of the initial investment plus an average of one-half of 1 percent of the value of the investment per year. Fund shares reach the public through brokers, investment firms, banks and their own door-bell-pressing salesmen—to whom much of the credit for their expansion goes.

IN KEEPING with their chief aim of providing for the small investor, shares in mutual funds may be bought by installment payments.

Of the two most popular plans, the first calls for straight share purchases on a monthly payment schedule. It usually requires a minimum down payment of about $200, and monthly installments of at least $25. This means that every month a buyer purchases

$25 worth of stock in the fund. A buyer may, if he chooses, continue paying for, say, ten years, letting his dividends and capital gains be re-invested. In this case, his payments may stop at the end of the ten years while his capital continues to grow and draw returns.

The second type of payment plan provides for "self-completion" of a specified amount which a buyer pledges he will invest in the fund over a period of time. The individual buys life insurance along with his shares, thus assuring full payment of the amount in case he dies. This makes it possible for his survivors to enjoy the income of the full investment the buyer intended.

When and if the individual wants to sell his shares, he simply turns them in to the company for their current value. Some companies withhold a slight percentage of this value when refunding.

SOME CONFUSION PERSISTS as to the usefulness of mutual funds as (1) a hedge against inflation, and (2) an assurance of income.

During an inflationary period, mutual fund shares usually outdo and outlast many individual stocks and bonds because of their diversified nature. But it is acknowledged that they cannot afford *certainty* of protecting the original buying power of the individual's money. They *do* afford a better opportunity to keep up income with rising prices.

A mixup as to assurance of income stems from a seeming resemblance of mutual funds to investment trusts. These latter institutions *contract* to protect an individual's money, under close review of the courts. They promise to pay certain amounts on certain dates and therefore stand clearly apart, in aims and legal commitments, from mutual funds. But investment trusts require initial investments of far greater sums than middle-income people can provide.

Mutual funds afford a chance to cash in directly on the economic progress of the country. When the individual of moderate income makes up his mind as to what he wants his surplus cash to accomplish for him, he should start by selecting the mutual fund company which has a stated policy most closely in line with his requirements. ■

"Pay as You Grow"

An Atlanta obstetrician charges her patients $20 per month during pregnancy, so the baby is paid for on delivery. The patients call it a "pay-as-you-grow" plan. —*Look*

ECONOMICS IN ACTION

Food prices, which showed a marked decline early this year, are up again. Reason: high egg, pork and poultry prices. This upward trend is expected to moderate this winter as low farm prices finally catch up with the housewife.

As long as gains in personal income keep ahead of living costs, we have little to fear. We'll really start to feel the pinch if business starts falling off.

Budget balancers are more hopeful now than they have been in years...Economy measures have pared the estimated deficit for fiscal 1954 down to $3.8 billion -- $2 billion less than the Administration's estimates last May. A hike in the National Debt before next January seems unlikely...A balanced budget, though, is still a long way off:

Tax revenues, which for fiscal 1953 hit a record high of $69,687,000,000, will decline as income taxes are cut next session and the excess profits tax is taken off the statute books.

Defense costs may have to be raised to meet the Russian H-Bomb threat. A fight to increase Air Force appropriations next session is a sure bet.

Higher interest rates on Government securities are boosting debt carrying charges and will make balancing the budget more difficult. Officials predict that interest on the public debt will edge toward $7 billion by fiscal 1955.

Russian buyers are still shopping, but Western enthusiasm for Soviet trade has considerably cooled. Main reason: Soviets prefer barter deals, but are often unable to deliver...Russians seem particularly eager for food and textiles:

ECONOMICS IN ACTION

Butter and meat from Argentina, Denmark, Holland and Australia.

Wool, rayons and cotton from England, France and Egypt.

Behind this trade drive is the very real consumer shortage in Russia:

Meat output at 3.4 million tons is less than 50% of U.S. output...Butter output is 147,000 tons less...Cotton cloth is 28% below our production, and, judging from official Soviet statistics, there are not enough shoes for normal replacement.

Purchasing power of the average man has declined 45% since 1928...It takes Ivan 38 hours of labor to provide his family with a week's food supply. An American worker can buy the same food for only seven hours of work. No wonder Soviet commissars are shopping in the West!

The Department of Better Mousetraps: electric socks specially insulated with warming wires...cereal packages that glow like neon lights..."hearing spectacles" whose frame acts as a bone conductor for sound...individual movie screens for every customer at drive-ins...an ash tray that automatically extinguishes your cigarette without stomping...frozen doughnuts...a special dye that tells you how much egg there is in the noodles you buy...combination refrigerator-stoves...a sparking machine that chases birds from city buildings...a year-round air conditioner that uses neither fuel for heating nor water for cooling...a tape machine that will record for 48 hours...and finally, 4-D films -- or "Smell-o-rama" -- which let you smell what you see on three dimensional movie screens. This may finish Hollywood.